

ECONOMICS **OF** **INDIA AND PAKISTAN**

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C O N T E N T S

Chapter.	INDIA	Pages.
I	The Geographical Background	... 1
II	Population	... 21
III	Agricultural production	... 52
IV	Systems of land Tenure	... 75
V	The Agriculturist and his Equipment	... 95
VI	Marketing of Agricultural produce	... 132
VII	Rural Finance and Indebtedness	... 151
VIII	Co-operation	... 174
IX	The State in Relation to Agriculture	... 201
X	Famine and Famine Relief policy	... 212
XI	Land Revenue policy	... 232
XII	Industry	... 254
XIII	Large-scale Organised Industries	... 267
XIV	Some Factors of Industrial Development	... 307
XV	Industrial Labour	... 331
XVI	Transport—Railways	... 370
XVII	Transport—Roads	... 391
XVIII	Transport-Waterways and Airways	... 397
XIX	Co-ordination of Transport Sources	... 405
XX	The Trade	... 408
XXI	Indian Fiscal policy	... 444
XXII	Currency and Exchange	... 473
XXIII	Currency and Exchange (contd.)	... 489
XXIV	Indian Currency and Exchange (contd.)	
	Indian Paper Currency	... 506
XXV	Indian Currency and Exchange (contd.)	
	World War II and After	... 515
XXVI	Banking and Credit	... 536
XXVII	Prices	... 577
XXVIII	Public Finance	... 600
XXIX	Effects of war on Indian Economy	... 665
XXX	Post War Construction	... 678

ECONOMICS OF PAKISTAN

Chapter		Pages
I	Area, Population and Natural Resources	1
II	Agriculture and Agricultural Production	10
III	The Problem of Land Reform in Pakistan	23
IV	Industries and Industrial Policy	... 29
V	Industrial Plans and Development	... 40
VI	Trade and Foreign Exchange	... 52
VII	Transport and Communications	... 66
VIII	Currency, Banking and Industries	... 78
IX	Prices in Pakistan	... 89
X	Finances of the State	... 98

P R E F A C E

Although since the partition our main interest lies in the economic development of Pakistan, it has been found advisable to bring out in a new edition under a new name of what was once called the "Indian Economics." For the citizens of Pakistan the study of Indian Economics is still of great value. We have inherited our economic structure and problems from the days when Pakistan formed a part of what was then India. We have had the impact of the same influences historical, political and legal and our problems are in many respects similar. Every economic problem of Pakistan when looked at in its historical perspective, must lead us to the study of conditions as they obtained in undivided India. In some respects regions now forming a part of the Indian Dominion, have travelled further than Pakistan, specially as regards industrial development. It is interesting to know why those particular portions progressed more than the Pakistan areas and how we can avoid mistakes made in the course of their development.

Further, the economies of the two Dominions are complementary to each other and for the proper understanding of the one, the study of the other cannot be neglected. Some of the chapters of the original book have been deleted because they were not considered of fundamental value from the point of view of our problems.

Since the partition Pakistan has had to start her life as an independent economic unit. Certain consequences followed the partition itself. It was necessary therefore to study the problems now faced by Pakistan in the light of our own needs and aspirations. For this purpose a separate volume 'Economics of Pakistan' has been written which is a much smaller piece of work because much of the material pertaining to Pakistan had already been incorporated in what is now 'Economics of India and Pakistans'.

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CHAPTER I

THE GEOGRAPHICAL BACKGROUND

1. Geographical Influences on Indian¹ Economic Life : A country is said to make its inhabitants.² We might amplify it by saying that the natural environments of a country have a profound influence on its economic life in all its aspects. Economic activities of a people are vitally affected by the natural forces operating in their country. The climate affects the efficiency of labour and determines the extent of the market for certain goods connected with food and clothing ; it, together with rainfall and the nature of the soil, decides as to what crops will be sown. Geological conditions and river systems are the outcome of the peculiar physical features of a country. All these put together determine the volume and the course of trade and industry which, in their turn, affect the government finances and the governmental activity. Thus all economic and the political phenomena are the outcome of the natural environments.

But man may conquer nature. He has spanned the seas and cut the mountains ; he has conquered the air ; he can travel under water ; distance has been annihilated by the fast means of locomotion. By electricity he has turned the night into day and toned down the rigours of climate. Through his irrigation schemes, he has tried to secure his independence from nature in the matter of rain. His soil reclamation schemes have been intended to overcome the limitations imposed by the nature of the soil ; even European soil has been exported to the New World. Mighty forces of Nature have been harnessed into the service of mankind. These miracles of man will fill an epic.

This mastery of man over nature is not, however, complete and unquestioned. Nature has a knack of escaping from the chains and asserting her sovereignty. Air operations are hampered by weather conditions, sea sometimes becomes ice-bound and no longer navigable ; a hail storm or a flood may undo the work accomplished by human labour and ingenuity. An earthquake upsets human plans. Thus we have been able to conquer nature

1. In this portion "India" stands for the sub-continent of India as under the British.

2. See Houlderness, T.W., *Peoples and Problems of India*, 1923.

only partially and nature's influence on economic activity cannot be ignored and completely eliminated.

On the economic life of the Indian continent nature's influence has been dominant. The Himalayas affect rainfall which, in its turn, governs agricultural operations throughout the country. The nature of the coast line and the land frontier has an influence on the direction and volume of trade. Configuration and geology cause the mineral wealth of the country to be what it is, and they are also responsible for the resources of power available to Indian industries. Efficiency of Indian labour is in no small measure affected by Indian climate which also determines the fauna and flora of the country. Indian budget is said to be "a gamble in the monsoons." Thus Indian agriculture, trade, industry, finances, and what not, are all the result of the natural environments of India. Really it is difficult to think of any aspect of Indian economic life which is not directly or indirectly influenced by the natural factor.

2. A few Geographical facts about India—size, location, etc :

The first thing that strikes one is the vastness of the size of the country and its continental dimensions. The total area of India (excluding Burma) is 15,72,000 square miles. This area is equal to that of Europe minus Russia ; it is more than twice the combined areas of five leading countries of the world, *viz.*, Japan, Germany, France, Italy and the United Kingdom ; or it is more than twelve times that of Japan and more than twenty times that of the United Kingdom.¹ She has a land frontier of 6,000 miles and a coast line of 4,500 miles. Her length and breadth are 2,000 and 2,500 miles, respectively. It is not only in size that she is big ; she is the home of one-fifth of the human race. She is thus not a country but a continent.

Besides, India is a country which presents all types of contrasts. Some of her regions are rainless ; others there are which get the heaviest rainfall in the world. Her climate varies from the icy cold, or temperate to the tropical. Malabar, with its tropical luxuriance, is a marked contrast to some treeless plains in the Punjab. Density of population varies from about five persons per square mile in Baluchistan to 814 in Cochin State. Sandy deserts of Rajputana are a contrast to valleys like Kashmir. Look at the Pathan from the Frontier, his stature and complexion, and a Madras or a Bengali and you wonder whether they can possibly belong to the same land, especially when they cannot talk to each other. India has been rightly described as the epitome of the world.

But there is a unity underlying all this diversity. This diversity enriches our economic and social life and it places before us vast and almost unlimited potentialities of developing an economic life of infinite variety and richness. It is, therefore, a welcome contrast.

India's geographical location is exceptionally favourable. She occupies a central position in the Eastern Hemisphere. She is equally distant from the West through the Suez Canal and from the Far East, as also equally distant from Australia and Africa. She thus undoubtedly occupies an excellent position for purposes of trade. Nature obviously meant India to serve as a distributing centre for a large volume of the world trade. In short, India seems to be marked out by nature to be a big and important country.

3. Three Natural Divisions : There are three well-marked natural divisions of India : (1) the Himalayan region ; (2) the Indo-Gangetic plain ; and (3) the Deccan.

India is bordered on the North by the Himalayas—a continuous range of mountains 1,500 miles long and 100-250 miles broad—which were once submerged under water. In their height they have no parallel in the world. Their highest peaks are Mount Everest over 29,000 ft., Kinchingjinga nearly 28,000 ft. and Dhavalagir 27,000 ft. They have more than 140 peaks higher than Mount Blanc which is the highest peak of Europe.¹ The Himalayas constitute almost a continuous defence wall, having only a few passes few of which are less than 1,700 ft. high.

The Himalayas are a big and valuable gift given to us by nature. This mountain range gives us rain ; it is a mysterious source and feeder of numerous fertilizing rivers and streams, and it has an immense influence on the meteorological conditions of the country. It tones down the high temperature of our plains ; it obstructs the cold dry winds from the North ; it shuts the fertile and rich plains of India from the unwelcome and greedy gaze of hungry prowlers ranging abroad ; its wealth of forests and pastures is simply priceless. It has given us valleys like Kashmir, which is a veritable heaven on earth.

The Indian eyes look at it with awe. The influence of the Himalayan range on the economic life of the country cannot possibly be exaggerated. But it is not merely a physical barrier between India and the North beyond ; it is also a social and cultural barrier, and it has made the Indian civilization unique. Such is the significance of the Himalayas to us.

1. See Dubey, R., *Economic Geography of India*, 1941, p. 24.

4. The Indo-Gangetic Plain : Another striking and important feature of India is the Indo-Gangetic plain with its alluvial and fertile soil and its unfailing river system. It is one of the biggest level plains of the world being about 1,500 miles long and 150 miles broad. It is literally the "dust" of the mountains.¹

It is almost an uninterrupted level plain stretching from the Indus in the West to the delta of the Ganges in the East. The western part is arid and dry, and as we move from the West to the East, through the Punjab and U.P. to Bengal, wheat and sugar fields give place to bamboos, palms and plantains ; and further East Assam is the home of a thriving tea industry. The eastern part is greener, more picturesque and has an abundance of water.

This Indo-Gangetic plain is the richest source of the crops that India grows. It is here that flourishing agriculture is carried on to feed our industries with essential raw materials. The alluvial soil has made it possible for a splendid system of irrigation to be developed here. It was the richness of this plain that attracted Aryan hordes from Central Asia. It is said to be the seat of the ancient Indian civilization. Livelihood here was won without toil and man had leisure to turn to art and literature. It contains regions of very dense population and has given rise to big, prosperous and important cities. We can gauge the importance of this plain to Indian economic life from the fact that India is predominantly an agricultural country and this plain is the seat of Indian agriculture. The three rivers, the Ganges, the Indus and the Brahmaputra, that flow through it, are a great national asset.

5. The Deccan : The Southern natural division of India, called the Deccan, is rocky and broken. These are the oldest Indian rocks ; they were there when the rest of India was under water ; the average height is 2,000 ft. above the sea level. They have two distinct parts : The Western Ghats and the Eastern Ghats. The Western Ghats are steeper. They rise to an average height of 4,000 ft. after leaving a thin strip of plain along the coast. The Eastern Ghats are, on the other hand, less steep and less high and leave a little broader plain along the coast line. Most of the rivers of the Deccan rise in the Western Ghats, those that flow towards the west are short and fast, and those that flow towards the East are longer and flow a little slowly.

It is in the Deccan that black cotton soil occurs, which in the valleys is particularly fertile. Many a rich crop is grown here.

1. Houlderness. T. W., *Peoples and Problems of India*, 1923, p. 34.

The deltas of Kistna, Godavary and Cauvery are very productive. Towards the extreme South in Malabar and Tanjore we meet with tropical luxuriance. This ancient part of our land has made no mean contribution to the infinite variety and richness of our economic life.

6. Climate : One of the most important factors that influence the economic life of a country is the climate. The distribution of natural vegetation, the product of land and animal, the working capacity of man, human wants and the location and distribution of industries are some of the consequences of the climatic factor.

India enjoys a variety of climate, cold in the hills and the extreme North, hot and dry in the plains, with a wide range of temperatures, and damp in the South with temperature more or less uniform. You cannot give one name to such a climate. It may be called semi-tropical or a combination of the temperate and the tropical. But it is dangerous to generalize.

We owe it to our climate that we can grow such a large variety of crops and lay the foundation of many a prosperous industry. It is our climate which makes the goal of economic self-sufficiency appear within reach, if we wish to pursue it. But Indian climate is said to have an enervating influence on the human system ; it makes the people listless, lethargic and incapable of a vigorous and sustained effort. It is said that a tropical mind is a sleepy, and an inert mind. But we should not exaggerate this adverse influence of our climate and attribute our economic backwardness to it. It is under a similar climate that Indians in ancient times reached the pinnacle of glory in the realm of art and literature, medicine, trade and industry. For the causes of our economic backwardness, therefore, we must look elsewhere.

7. Rainfall : The importance of rainfall to an agricultural country like India can hardly be exaggerated. It is not for nothing that an Indian peasant in a difficulty always looks above for relief. The God of an illiterate Indian is supposed to reside in the clouds. Rain must be timely ; it must be sufficient, but not too much, and it also must be evenly distributed. Failing any of these things, the Indian farmer faces misery. Indian rainfall is said to show all the vagaries of an oriental potentate. We must understand that failure of nature in this respect may spell ruin to millions of people who depend upon agriculture. But it is not only the agriculturists who suffer. Failure of crops means curtailing of demand for goods ; it means depression ; it results in the

reduction of Government revenue, which, in its turn, means contraction of Government activities and retrenchment. The effects are very far-reaching indeed and permeate the whole of our economic life. Sir Guy Fleetwood Wilson described the Indian budget as "a gamble in the rains" and he was perfectly right.

The rainfall in India shows considerable variations ; and its distribution is very unequal throughout the country. The average annual rainfall varies from 3 inches in Sind to 460 inches in Cherrapunji. There are regions of very heavy rainfall like Assam, Eastern Bengal and Western Ghats ; there are regions of precarious rainfall like a part of the Punjab, Bombay and U.P. ; and then there are regions of deficient rainfall or drought as Western Punjab, Sind and Rajputana.

Most of the rain in India comes from the monsoons, the Arabian Sea monsoon, and the Bay of Bengal monsoon ; but the former is more important and causes 90 per cent of the rainfall in India. Indian rainfall not only varies from place to place but the intensity of the monsoon varies from year to year. Out of a cycle of five years, it is said, one is good, another bad and three neither good nor bad. In one year the current may be too strong and cause floods, and in another year it may cause drought. Still another remarkable feature of our rainfall is that it is seasonal. London, for example, gets 24 inches of its annual rain in 161 days in light drizzles leading to considerable sinking, while Bombay's 71 inches come in 75 days only.¹ Thus most of our rain water coming in torrents is washed down and wasted.

8. Seasons : Seasonal variations have an intimate bearing on economic life. Diet and dress depend upon them. They are, therefore, of no slight importance in determining the demand for agricultural and industrial goods. Agricultural production, too, depends on seasons.

There are three well-marked seasons in India with a short period of transition intervening between them. We have winter from November to February, which is comparatively dry and rainless,² next there is the hot dry summer from April to June, March being the transitional month ; then follows the rainy summer season from July to September, October being the transitional month. Again, here, as in the case of climate, it is difficult to generalize ; there are some variations to be met with as between the North and the South and the East and the West.

1. Dubey, R., *Economic Geography of India*, 1941, p. 2-(a).

2. The Punjab gets some rain in winter, too.

There is a much greater severity of seasons, for example, in the North than in the South.

9. Soils : Indian soils can be broadly divided into three classes :—

(1) *The Alluvial.*—It occurs in the Indo-Gangetic plain and the coastal strips of the Eastern and the Western Ghats. It is soft, deep and porous and can retain moisture. It has been fertilized by the washings of the rivers and it is consequently suitable for growing a great variety of crops.

(2) *The Deccan Trap Soil.*—It covers practically the whole of the Deccan. A greater part of Bombay Presidency, the whole of Berar, Western C.P. and Hyderabad show this type of soil. On the hills the soil is thin and hence poor and unproductive ; but down in the valleys of the rivers it is deep and remarkably fertile and can grow a rich variety of crops, especially cotton.

(3) *The Crystalline Soil.*—It occurs in the whole of Madras Presidency, South-East of Bombay Presidency, Orissa, Chhota-Nagpur, the major portion of C.P., half of Hyderabad, Central India and some districts of Bengal and U.P. This soil is also called laterite as it lies adjacent to laterite rocks. Where rainfall is favourable or irrigation facilities available, it yields a fairly large number of good crops. It shows wide variations of depth, consistency and fertility.

In addition to these may be mentioned the desert soils which occupy large tracts, in eastern Sind, Rajputana and South Punjab. Then there are two alkaline soils known as Reh or Kalar in Sind and the Punjab. They "have a high degree of impermeability and "stickiness" together with high alkalinity and frequent presence of large excess of free salts."¹ They are poor in nitrogen and humus, hence unsuitable for crop growing without previous reclamation.

In recent years considerable work has been done on Indian soils with the object of their classification and investigation of their crop producing powers. The importance of soil surveys and soil mapping is being more and more recognized. At the Imperial Agricultural Institute at Delhi a soil map of India has been prepared and an all-India scheme of soil survey has recently been launched.

10. Forest Resources : India has got a very valuable property in its vast and varied forest wealth. The total area under

the control of the Forest Department in British India on 31st March, 1941, was a little less than a lakh square miles (98,721 square miles), which represents 11·5 per cent of the total area.

It has already been seen that Indian climate ranges from the tropical and sub-tropical to the temperate one. The variety in climate, topography, nature of the soil and other local factors are responsible for the infinite variety of the forest types, scattered throughout the length and breadth of the country.

11. Main types of Forests : The following main types of the forests can be broadly distinguished :—

(a) *Alpine Forests*.—These are the uppermost forests in the Himalayas to be found at the heights between 9,500 feet and 12,000 feet. They consist of small trees and large shrubs. Silver fir, Blue Pine (only in patches) and Junipers are also to be met there. This region supplies excellent grazing grounds in summer for goats and sheep.

(b) *Temperate Forests*.—Wet temperate forests grow throughout the length of the Himalayas at a height between 5,000 and 11,000 feet in the regions of very heavy rainfall. They bear a striking resemblance to the temperate forests of Europe and North America. Spruce, silver fir, deodar and blue pine are some of the trees found here. But most of these forests are inaccessible, and, under the present conditions of the means of transport, uneconomical of exploitation.

Dry temperate forests, consisting of scattered patches of oak, ash, deodar and silver fir at higher altitudes are to be found in Hazara, Kashmir, Chamba, Garhwal and Sikkim, where rainfall is usually less than 40 inches a year.

(c) *Sub-Tropical Forests*.—There are wet sub-tropical forests consisting of oaks and chestnuts in the Eastern Himalayas and chir in the Western and Central Himalayas.

The dry sub-tropical forests occur at a height between 1,500 and 5,000 feet, the chief specie being the olive. Grazing, lopping and felling have impoverished these forests.

(d) *Tropical Forests*.—The wet, ever-green tropical forests occur on the Western Ghats, wetter parts of Bengal, Assam and the coastal strips of Orissa. Teak and sal, mixed with many other species, are to be found in these regions.

The dry tropical forests occur in several parts of the country where rainfall is deficient but temperature is high. Thorny trees like *kikar* grow in these regions.

12. Utility of the Forests : The Indian forests are a great national asset. Besides being useful in regulating the flow of rivers and preventing floods, regulating the air currents, improving climate, the sanitary conditions and the beauty of the countryside, the forests supply timber for building purposes, fuel, and raw materials for paper, lac and match industries and many other valuable substances, such as bark for tanning purposes, and gum, dyes, drugs and some food products. Besides, they fertilize the soil and provide shelter for bird and beast. We may note in particular that we have got almost an inexhaustible source of bamboo which is a very suitable raw material for paper industry. Researches at Dehra Dun Forest Institute will no doubt bring out several further uses of our forest wealth. Co-ordination between forest exploitation and industrial planning is essential, if we are to make the best use of the vast and varied forest wealth of ours.

13. Forest Administration : For a long time reckless destruction of Indian forests continued and it was not realized that preservation of forests or their scientific management was highly conducive to the economic and physical well-being of the country. This realization dawned in about the middle of the last century. The Bombay Government appointed a Conservator of Forests in 1847. The Government of India issued a memorandum in 1855 laying down the lines of forest conservation. A Conservator of Forests was appointed in Madras in 1856. The Governor-General submitted to the Secretary of State in 1862 detailed proposals regarding the management of forests. Inspector-General of Forests was appointed in 1863....

The Forest Department controls more than one-tenth of the area of British India. The forests are classified as reserved, protected and unclassified. In the case of reserved forest areas the rights of the individuals as to the use of forests are completely recorded at the time of settlement operations and the boundaries are clearly demarcated. The Government exercises a very strict control over this area. In case of protected area the record of rights is not so complete, nor are the boundaries definitely demarcated. The public has greater freedom in the use of these areas. In the unclassified areas the Government control is the least. These areas are not subjected to scientific management.

Sir Herbert Howard, Inspector-General of Forests in India, has prepared a post-war development scheme for Indian forests. Every province is to launch plans of afforestation so that the forest area in India as a whole will increase by roughly a quarter.

Each village is to have its own forest area for the supply of timber, pastures and fuel.

14. Mineral Resources : A wrong impression seems to prevail among some of our countrymen about our mineral resources. Some people seem to have an exaggerated notion of the quantity and quality of the minerals produced here. Let it be said at the very outset that our mineral resources are not so vast or unlimited as is sometimes supposed.

But it is not to be supposed, on the other hand, that India's mineral wealth is scanty or meagre. Even in this respect we occupy a fairly respectable position.

15. Production of Minerals : The total value of the minerals produced in 1938 was Rs. 34,13,93,365 (£25,447,116).¹ The chief mineral products are coal, iron, gold, petroleum, manganese, tin, mica, lime, etc. The quantity and the value of the principal minerals produced in 1938, the latest year for which the figures are available, are given below :—

Mineral	Quantity	Value Rs.
Chromite ...	44,149 tons	6,82,502
Coal ...	28,342,906 tons	10,64,23,835
Copper ...	288,076 long tons	32,40,640
Diamonds ...	1,729 carats	68,813
Gold ...	321,138 ozs.	3,04,75,397
Iron Ore ...	2,743,675 tons	45,56,974
Lead ...	80,100 tons	1,67,36,720
Magnesite ...	25,611 tons	1,60,593
Manganese ...	967,229 tons	3,92,94,763
Mica ...	123,169 cwts.	42,04,633
Monazite ...	5,221 tons	2,33,700
Nickle ...	3,015 tons	11,06,323
Petroleum (including Burma) ²	274,664,365 gallons	5,95,06,155
Silver ...	6,181,000 ozs.	73,60,998
Tungsten ...	4,997.7 tons	80,22,748

16. Iron Ores : Some Indian iron ore deposits are considered to be the richest in the world, containing 60 per cent metal. They occur in Singhbhum, Keonjher, Mayurbhanj, Bengal, Upper

1. *Records of Geological Survey of India*, Vol. 74, Part III, 1939, pp. 296, 385.

2. On account of separation of Burma, Assam and the Punjab are our only sources producing about 60 and 19 million gallons, respectively.

Gondwana, the Deccan trap and the Himalayas. It is estimated that they contain about three thousand million tons of iron.

17. Manganese : It is a very useful material and has been called the "jack-of-all-trades." It is required for enamel, porcelain, chemicals, plastics, varnish, glazed pottery, dry batteries, and what not. But its biggest consumer is the steel industry. Because our steel industry is not yet fully developed, most of the manganese produced in India is exported. Next to Russia, India is the largest producer. Within a generation the export of manganese has risen from 4,000 tons to 900,000 tons.¹ Nagpur, Balghat, Bhandara and Chhindwara districts in the C.P., some parts of Bombay Presidency, Mysore, Madras Presidency, Bihar and Orissa are the chief places of its occurrence.

18. Copper : It occurs in Chhota Nagpur, Singhbhum, Rajputana, Sikkim, Kulu and Garhwal. From the extensive tracings of old workings, it can be inferred that there was flourishing copper industry in India in the past. All the deposits are not workable, because some of them happen to be scattered in the form of grain. India's contribution to the world copper supply is indeed very slight.

19. Gold : Kolar field in Mysore is the only important source yielding about 340,000 ozs. Other fields are those of Hutti in the Nizam's Dominions, Anantapur in Madras ; but they are much less productive.

20. Silver : Far from being a producer, India is the largest consumer of silver in the world. Only a slight quantity, say, 25,000 ozs., is won from the Kolar field. Her annual imports of silver are of the average value of £10,000,000.²

21. Lead : The lead ore deposits occur in Madras, Himalayas and Rajputana, and Manbhum, Hazaribagh in Bihar. But the total production of lead is almost insignificant.

22. Mica : Mica deposits occur in Ajmer, Travancore, Mysore and Hazaribagh in Bihar and Nellore in Madras. Mica is extremely useful in the making of electrical goods. India has got the monopoly of mica in the world ; nearly the whole of it is exported.

23. Chromite : India is well blessed by nature with chromite deposits. It is an important mineral used for war purposes and up to the last war it was mainly used as a refractory material. As we are still industrially backward, there is very little home demand

1. Wadia, D.N., *Geology of India*, 1939, p. 340.

2. *Ibid.*, p. 351.

for it. Mysore State is the largest producer, other centres being Baluchistan and Singhbhum and also in some parts of Bombay and Madras. Our average annual consumption is 6,495 tons. But with the manufacture of aeroplanes and motor-cars, India will begin using more and more chromium.

24. Other Mineral Products : Besides the above minerals, India possesses deposits of several types of clay having a high degree of plasticity, which are useful for making pottery, tiles, pipes and high-grade porcelain. China clay deposits are to be met with in Upper Gondwana, Bengal, Singhbhum, Mysore, Delhi and Jubbulpore. Fine clay of a high refractory quality is also available.

Then, there are various kinds of sands available in several localities in the U.P. and Baroda State, and they are very suitable for use in the glass industry.

We have got extensive and rich deposits of aluminium bauxite occurring in Assam, C.P., parts of Bombay and Madras Presidencies. But we have not tried so far, to any considerable extent, the reduction of bauxite into its metal aluminium.

Our sources of salt are also very considerable. Salt is obtained from sea water in Madras and Bombay Presidencies, from the lakes in the interior, like the Sambhar Lake, and from the salt rock as in Khewra salt mine. Salt is a highly useful material for the making of chemicals. It is universally demanded for human and cattle consumption.

25. Review of the Mineral Position : The figures of production given above are fairly striking. India is the largest producer of mica. Her iron ore is of the richest quality. She is the second largest producer of coal in the British Empire. High grade chromite is produced in large quantities in Baluchistan. We can safely conclude that our mineral resources can be counted upon giving a fairly strong support to any scheme of industrialization that we may launch. Most of the ores are being exported in a raw form at present, and we are not, therefore, making the best of them. As industrialization gathers momentum, many deposits, which are of little value now, will assume importance.

26. Power Resources : Supply of cheap power is one of the most important requisites of industrial prosperity. India aspires to a high class industrialism. Let us see, therefore, whether she is properly equipped from the point of view of power for running the industrial machine.

27. Sources of Power : There are several sources from which energy can be generated, for example, wood, wind, water, alcohol, oil and coal. Wind, which is being extensively used in the Netherlands in Europe, has not been made use of here so far. Alcohol may be produced in large quantities as a by-product of sugar industry, but at present it is of little importance as industrial fuel. Separation of Burma has impoverished us of petroleum, of which we now produce a very small quantity ; reliance on petroleum, therefore, as a source of power for our industries is hazardous. Wood is a fairly important source and was put to considerable use in the past. But its only consequence was a reckless destruction of the forests with which afforestation did not keep pace. The forests of some countries of the world were soon denuded and the industrialists had to look elsewhere. We are, therefore, really left with coal and water as sources of energy, to the discussion of which we now turn.

28. Coal : Nature has not been generous to us in the supply of coal resources. There are several shortcomings in this respect. Our resources are extremely limited, the quality of our coal is very inferior on account of its high ash content and presence of moisture, and the coal deposits are very unevenly distributed.

29. Coal Output and its Distribution : Indian coal production in 1940 was 29 million tons.¹ Jharia coal-fields accounted for a little less than 40 per cent and Raniganj about 30 per cent. Nearly 90 per cent was derived from the coal-fields of Bengal and Bihar alone. In 1937, Gondwana coal-fields supplied 98·14 per cent. Thus almost our entire coal supply is centred in one corner of such a big country. Coal is a bulky article and the cost of transport to certain industrial areas, as those in Bombay and Madras, is simply prohibitive. This imposes a serious handicap on industries in those areas.

30. A warning of a probable shortage of Coal . We have been receiving, in recent times, repeated warnings of the probable exhaustion of our coal resources in the near future. In 1873, Mr. T.W. Hughes showed that area under coal in India was of the order of 35,000 square miles, *i.e.*, one-fifth of that of the world and three times as large as that estimated for Great Britain.² But an estimate by Dr. Fox as to the total coal reserves of Lower Gondwana was 60,000 million tons.³ Dr. Fox estimated the

1. *Review of the Trade of India*, 1940-41, p. 53.

2. *Records of Geological Survey of India*, Vol. VI, pp. 64-66.

3. *Memoirs of Geological Survey of India*, Vol. LIX, 1934, pp. 343-44.

reserves of workable coal at 20,000 million tons, reserves of good quality coal at 5,000 million tons and of good coking coal at 1,500 million tons only. Sir Lewis Leigh Fermor, in 1935, put the reserves of good quality coal at 4,500 million tons.¹ With 100 per cent extraction, these reserves, according to Fermor, would last 200 years. But it would be safer to put the extraction at 50 per cent and the reserves will, consequently, last 100 years only. The Indian Coal Committee, in 1937, estimated, however, that the reserves of good quality coal would last 122 years and that of coking coal only 62 years.² Another expert has recently remarked that even with the imposition of restrictions on the use of good quality coal, India will experience a shortage of coal before the end of this century.³

31. Likelihood of new discoveries of Coal: It is possible that the geological surveys may lead to the discovery of some new deposits. The General Report of the Geological Survey of India for 1938 mentions the discovery in the Langrin area in Assam, of new deposits of coal ore, the workable seam of which alone has a total reserve of 80 million tons. Dr. D.N. Wadia of the Geological Survey of India thinks it probable that a large extent of coal-bearing Gondwana rocks lie hidden underneath the great pile of lavas of the Deccan trap.⁴

But it is safe not to count upon these probabilities. The situation, as visualized by the experts, calls for a serious thought. It is, therefore, necessary to economize and devise measures to make our limited resources of coal last as long as possible.

32. Wastage: We find, on the other hand, that we are imprudently wasting our coal resources. Good quality coal, as it is very limited in quantity, should be used only for metallurgical purposes where inferior coal cannot be used. But as against this sane method, we find that good coal is being used for steam raising purposes by railways and others. This is something very serious and calls for immediate attention. In 1931-32, only 14 per cent was used for metallurgical purposes. The blast furnaces in India are, at present, designed for the use of unwashed good quality coal. This must be rectified, and plants modified so as to be able to use inferior coal. Cleaning of coal at present may be uneconomical; but as our resources get depleted and the price of coal rises, it will become necessary and economical.

1. *Bulletins of Indian Industries and Labour*, No. 54, 1935.

2. *Vide Report*, Vol. I, p. 63.

3. *Gee. E.R., Records of Geological Survey of India*, Vol. LXXV, Professional Paper No. 11.

4. Wadia, D.N., *Geology of India*, 1939, p. 339.

A lot of wastage also results from our methods of working the coal mines. Mechanical appliances for screening, cleaning and loading are used to a very small extent, and mechanization of the underground processes has not made much progress. The Indian Coal Committee of 1937 remarked: "The coal trade in India has been rather like a race in which profit has always come in first, with safety a poor second, sound methods 'also ran' and national welfare 'a dead horse' entered perhaps but never likely to start."¹

33. Conclusion : It is thus necessary strictly to enforce measures like sand stowing for the conservation of our coal resources. It will be a great pity if we become destitute of coal while our iron ore resources are so vast. It may also be, incidentally, mentioned that the internal organization of the coal industry is seriously defective, involving internecine economic warfare. What is needed is centralized control over prices and output. Only this will rid the industry of its frequently recurring troubles.

During the World War II, there was acute wagon shortage and the supplies of coal were seriously dislocated. The proximity of the coal area to the war zone also created some problems, e.g., the labour situation became critical. In 1941, the output of coal reached a record figure of 29·5 smaller tons but in 1942 it declined by 10 per cent. Demand for coal, however, was increasing on account of the rising tempo of industrial activity.

34. Hydro-Electric Resources—Nature's Bounty : If nature has been ungenerous and niggardly in her gifts of coal to India, she has been almost lavish in her gifts of hydro-electric sources. This bounty of nature more than makes up for the deficiency of our coal, and what is more remarkable is the fact that vast possibilities of the development of hydro-electric power exist in areas with little or no coal and which are most distant from the coal mines. Nature thus seems to have marked out distinctly a "water zone" and a "coal zone" so that no part of our country is handicapped in its race of industrialization.

Apart from the fact that electricity is considered to be the only practical method of transmitting power and that power can be transmitted in this way to a distance of 250 miles and, under favourable conditions, even 1,000 miles,² electricity is eminently suitable for India, for it can mitigate, to a very large extent, the rigours of the Indian climate. It can make the summer hot days

1. Vide Report, Vol. I, p. 30.

2. *Journal of Indian Industries and Labour*, Vol. I, Part II, May 1921, p. 15.

cool, and provide warmth in the cold season. If electricity is provided in factories on a generous scale, the factory hands will find the factories more comfortable than the homes. It will immensely improve their efficiency.

35. Estimate of Hydro-Electric Resources : The rainfall in India is seasonal and the whole of our year's supply of rain is given to us in a few weeks. There is, consequently, a tremendous waste of water ; it simply runs down. This water can be stored and utilized for the production of electrical energy. Indian rivers are full of natural waterfalls ; even canals and water storage, as in Deccan, are suitable for generating energy. "The rainfall or snowfall over India could provide potential energy equivalent to some thousand million kilowatts.¹ The Hydro-Electric Survey of India estimated the water-power resources available in India to be 5,582,000 k.w. or 7,400,000 h.p.²

36. Hydro-Electric Works : Several big hydro-electric schemes are already in operation in India. In fact, India is one of the pioneers in this respect, as the first hydro-electric scheme undertaken to the East of Suez was that on the river Cauvery in Mysore State, and for some time it was the largest transmission line in the world.

The Tata's three undertakings, *viz.*, Lonavala, Andhra Valley and Nila Mula, have a combined capacity of 245,600 h.p. These three units, operating as one, supply energy to Bombay and its surroundings at 0'45 of an anna per unit for industrial purposes. Bombay Cotton Mills and other factories consume about 150,000 h.p.

The Mysore Hydro-Electric Works have a total capacity of 46,000 h.p. and a power station at Shamsa falls is expected to produce 32,000 h.p. and another at Jog falls 20,000 h.p., thus making a total capacity of 89,000 h.p.

The Pykara Hydro-Electric Works (Madras) can, with full storage, generate 90,000 h.p., in addition to 30,000 h.p. from the tail water at a lower site. The most remarkable feature of the works is that it has the highest head plant in the British Empire, the vertical drop of water being no less than 4,000 feet. Of the total power demanded on the plant which amounted to 13,000 k.w. in 1936-37, the textile mills alone accounted for 56 per cent, other industrial establishments taking 15 per cent. The current is supplied at the rate of 0'40 to 0'80 an anna per unit.

1. Shiv Narain, *Hydro-Electric Installations in India*, 1922, p. 2.

2. *Hydro-Electric Survey of India*, Tricennial Reports, 1922, p. 55.

The Mandi Scheme in the Punjab, when complete, will give a total output of 118,000 k.w., a quantity more than sufficient to meet the requirements of the present generation in an area extending from Delhi to Sialkot and Lyallpur. Its 15,000 feet long tunnel is a marvellous achievement and is one of the first steel mantled tunnels to be built in Asia. The charges for electricity in Mandi Scheme for industrial purposes vary from 9 pies to 18 pies per unit.

Some schemes are also operating in the U.P. and Kashmir. The Kashmir works can generate 26,000 h.p. In U.P., a scheme investigated on the Jumna river contemplates the development of minimum continuous power of nearly 125,000 k.w. in four stages. It is estimated that with a 50 per cent load factor the cost per unit delivered within 100 miles of the generating stations will be 1.5 pies per unit. Mr. Mears estimated that a minimum continuous power of 24,000 k.w. could be generated on the Sutlej within some 40 miles of the Jumna generating stations. It is estimated that both these rivers can ensure the generation of an average block of power amounting to half a million kilowatts for consumption between Ludhiana and Aligarh.¹

37. Conclusion : Thus it may be seen that hydro-electric schemes in India are both big and unique. The rates charged are fairly low and the energy is being readily taken up. Financially also they have been quite successful ; perhaps, the solitary exception is the Mandi Scheme. The Pykara Project in Madras, though not designed for profit originally, yielded a net surplus, in the third year of its working, larger than was anticipated in the tenth year. Development of hydro-electric energy occupies an important place in the schemes of Post-war Reconstruction in India. The irrigation Adviser to the Government of India, Sir William Stampe, has proposed a scheme to which he has given the name "Electrical Federation of India." We have so far developed our hydro-electric resources to an insignificant extent. When we develop these resources to a reasonable extent a very great source of power will be placed at the disposal of our industries. Agriculture and small-scale industries will be specially benefited.

38. Animal Resources: India has a cattle population to match its human population. She carries one-fourth of the world's stock of cattle and two-thirds of its buffaloes and has to support something like 97 million sheep and goats. The number

1. Presidential Address by K.B. Abdul Aziz at the annual general meeting of the Institute of Engineers (India) held at Lahore in January 1940.

of cattle per 100 acres of sown area varies from 49 in N-W.F.P. to 163 in Ajmer-Merwara; and per 100 of population, it varies from 24 in Delhi to 863 in Ajmer-Merwara.¹ The annual cash value of livestock and products has been estimated at Rs. 2,000 crores.²

Such a huge livestock can undoubtedly be of great value to the nation and can enable us to lay the foundations of flourishing leather and dairy industries, besides several others based on by-products like hair and bones.

39. Huge Livestock—a Liability rather than an Asset : But such a huge livestock, far from being a national asset, is a big national liability and a cause of loss and botheration. The quality of Indian cattle is very poor. They are generally mere skeletons and so many bags of bones. If we improve the quality of our oxen and make a pair to cultivate 15 acres instead of 10 acres, we shall need 17,800,000 pairs to cultivate 267 million acres, the area sown in 1936-37, we shall be able to release 8,900,000 pairs; and if the cost of maintenance per pair is computed at Rs. 150 a year, it alone will mean a saving of Rs. 1,33,50,00,000 to the farmers. Similarly, by systematic breeding and proper feeding of the milch cattle, the wealth of India can be increased by several crores of rupees by increasing the yield of milk. According to the last cattle census, there were in India about 52 million cows and 21 million female buffaloes. The lactational yield per capita, as shown by Provincial Marketing Surveys (1936), was 587 lbs. for cows and 990 lbs. for buffaloes. In the breeding tracts, however, the lactation yield was 943 lbs. for cows and 2,160 lbs. for buffaloes.³ This means that owing to lack of proper breeding, the Indian cow yields 456 lbs. less in a lactation and a buffalo 1,170 lbs. less than they could. Assuming the number of properly bred cows and buffaloes to be negligible and taking two annas as the average price of milk (the pre-war rate), the loss to India per lactation may be put at Rs. 60,34,50,000. These little calculations show what immense possibilities we have of adding to our wealth by adopting scientific methods in the utilization of our natural resources.

India produces a large variety of crops which, besides feeding the people, supply valuable raw materials for Indian industries. India can be justly proud of its fauna and flora.

40. A poor people in a rich country : This rapid survey of our resources is enough to show that Nature has been very generous to us, almost lavish in some respects. Her biggest gift, the Himalayas, are of incalculable economic benefit to us

1. *Indian Information Series*, April 1, 1939, p. 149.

2. *Agricultural Statistics of India*, 1937-38, Vol. I, p. v.

3. See *Bulletin No. 22*, 1939, of the Imperial Agricultural Research.

and have immense potentialities. The Indo-Gangetic plain is a perennial source of rich and varied crops. The infinite variety of climate can enable us to develop a varied economic life. Our mineral resources are fairly varied and sufficiently rich. Coal may be deficient ; but water power resources are immense. We have a huge livestock and a vast human population. Geographically, we are ideally situated. India seems to be thus marked out to be one of the biggest and the most important countries in the world.

But what is the actual position ? Poverty stalks the land, a poverty for which there is no parallel in the world. It is nothing short of an enigma or a paradox that we should be poor while our country is meant to be so rich.

41. Criminal waste of resources : It is not proposed to discuss here in detail the problem of poverty. But we can make some general observations here in order to understand this mystery of poverty in the midst of plenty.

One thing that strikes us is the criminal waste of our resources. We have already seen how our coal resources are being wasted for the sake of getting maximum profits. Dr. R.K. Das, in his book, *Industrial Efficiency of India*, has made a detailed study of the wastage of our resources. According to his calculations, of the potential arable area only about 30 per cent is being utilized for productive purposes and 70 per cent wasted. Taking the most liberal view, not more than 25 per cent of our forest resources are utilized and 75 per cent wasted. The wastage of fisheries has been put at two-thirds a year. Production of iron ore is only a little more than 11 per cent of what it should have been. Wastage of water resources amounts to 99 per cent. He concludes that the wastage of natural resources of India amounts to 75 per cent.

Then, there is also a wastage of human resources on account of ill-health, ignorance, unemployment or under-employment, useless motherhood and premature deaths. Out of the total manpower of 178 million persons (based on 1921 census) consisting of 92 million men and 86 million women, India loses annually the labour or energy resources equivalent to 45.9 millions through under-employment, 32.9 millions through ill-health, 2.5 millions through useless motherhood. In other words, the energy resources of 114 million persons, i.e., 64 per cent of the total man-power is annually lost.

Wastage of capital arises from an unproductive investment, from immobilization of the capital resources and from imperfect utilization of the existing capital resources. This has been estimated at 66 per cent of our total capital resources

The total wastage of the productive factors, *viz.*, land, labour and capital, has been put at 69 per cent¹ which is more than two-thirds. We are, in other words, utilizing less than one-third of our productive power. Is there any wonder that we are poor?

42. Causes of Wastage : Causes responsible for this wastage are numerous and complex. They lie in our social, economic and political structure. Racial characteristics, ignorance, inexperience and illiteracy all have something to do with this state of affairs.

The absence of economic Swaraj has prevented the formulation of policies calculated to the exploitation of our resources always on the right lines and to the full extent. The policy of inactivism or *laissez-faire*, pursued by the State in India, has considerably affected the development of our resources.

The adverse influence of social conditions is only too apparent. The caste system is responsible for the vivisection of the Indian society and by preventing free mobility of labour, fits many round pegs in square holes. The joint family system kills individual initiative and enterprise and breeds drones, which state of affairs, in its turn, reduces the chances of accumulation of capital. The stay-at-home habits, engendered and encouraged by the system, are responsible for the maladjustment of supply of labour to the demand for it.

The dominance of religion makes the people fatalists, superstitious and conservative and cuts across the organization of the economic interests. Religious sentiment also prohibits, in the majority of cases, the full economic utilization of our animal resources.

1. Das, R.K., *The Industrial Efficiency of India*, 1936.

CHAPTER II

POPULATION

1. Importance of the Study of Population : In spite of the preoccupations of World War II, India has had a census in 1941. The financial considerations did not allow the operations to go their full course or the tables to be completed, still the very undertaking of the task at such a time shows how very important it is. It is only recently that scientific study of demography has been undertaken and yet its importance is recognized on all hands. The relation between progress and population is so intimate that without a proper survey of the different aspects of population in a country, no future advance can be planned. India is poor and her poverty has no parallel in the world. The *per capita* income is meagre. The standard of living is almost the lowest in the world. Curiously enough, this extreme poverty exists in the midst of great plenty. To remedy this situation a thorough and scientific study of Indian economic life is essential. But no active remedies can be suggested without a study of the Indian people themselves, their numbers, age groups, occupations, diseases, ratio between the two sexes, etc. Herein lies the importance of the study of the population problems of the country.

2. Population and its growth : The total population of India, according to the 1941 Census, is 388,997,955 souls, of these 93,189,233 live in Indian states and 295,804,722 in British provinces. The total area of India (excluding Burma) is 8,581,410 square miles.

During the last 50 years, the population of India has grown by 1'10 millions as is clear from the table below :—

TABLE I
POPULATION IN INDIA (MILLIONS)

	1891	1931	1941	Per cent increase since 1891
Total persons	279	338	389	39
British Provinces	213	257	296	39
Indian States	66	81	93	40

TABLE II

Percentage variations from decade to decade were as follows :—

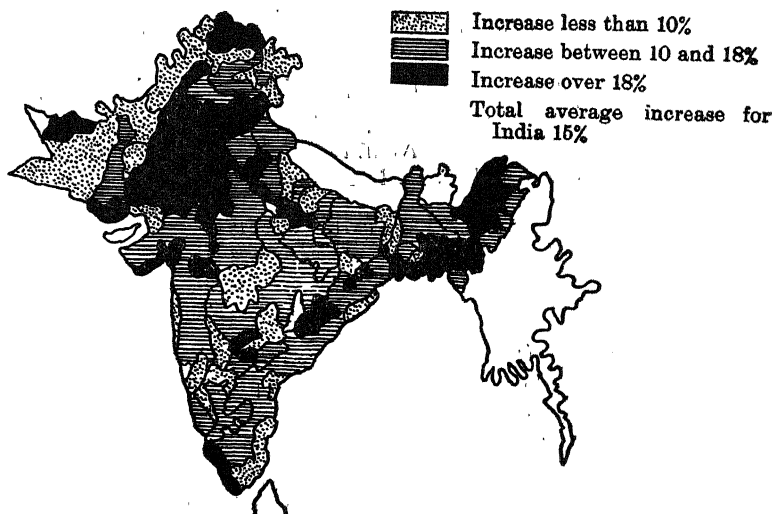
1891-1901	1901-1911	1911-1921	1921-1931	1931-1941
+1'5	+6'7	+0'9	+10'6	+15

It will be seen that the growth of population from decade to decade has been slow and irregular; the governing factors have been famine or epidemics. Their prevalence has been a restraining influence and their absence responsible for a substantial

increase. Between 1891 and 1901 the twin factors of plague and famine checked a rapid growth in numbers. The decade 1901-1911 experienced a fair degree of agricultural prosperity and thus registered a higher increase. The prospects of increase in the next decade (1911-1921) were marred by influenza which raged in an epidemic form. But for this calamity which is estimated to have taken a toll of 14 million persons, population in India would have considerably increased. It seems the increase in numbers during the first seven years of this decade was neutralized by this disease during the closing years. Since 1921, however, the population has increased at a very rapid rate. Nature seems to have been less unkind; perhaps the methods of conquering epidemics have been perfected. Better increase in irrigation facilities have mitigated famine conditions. A part of the may be attributed to increase in the area of census operations and improvement in the census methods. Even making an allowance for these factors the real increase in population seems to be fairly alarming. Although the census commissioner considered 7 to 8 per cent for the decade as the rate of probable increase, to us, however, 10 per cent seems to be the normal rate of decennial increase. Considering the huge size of our population, this rate is sufficiently perturbing.

The increase has not been uniform in all parts of India, although higher rates are universal as the map below shows :—

Percentage variation of population in 1941 as compared with 1931.



"Rates are noticeably higher in the north than in the south and have two extreme peaks in the extreme west and north-west and in the east. In fact, we have in the Punjab and Eastern Bengal two swarming areas. Both are comparatively young from the habitation point of view."

Let us examine the causes that are responsible for the rapid growth of numbers during the last 20 years or so.

3. Causes of the Great Increase: The causes of the great increase in population may be summarized as follows:—

(a) The new irrigation schemes in the Punjab have thrown open considerable semi-desert areas to new colonization. The process started from almost zero, and is going on at a remarkable speed. The same was the fortune of the U.S.A. and Canada when the human tide first flowed in from Europe. The new colonies in the Bikaner State have attracted the Sikh farmer who has been responsible for a 40 per cent increase. Bahawalpur has fared similarly. In Western Bengal with increased agricultural capacity the numbers have multiplied rapidly.

(b) The 1931 Census was taken during a period of political disturbances. The Civil Disobedience Campaign was responsible for leaving many persons unregistered. The leakage was the greatest in North India. All that slack has been caught up, hence the greater increase in density in North India.

(c) In 1941, the country as a whole was census conscious and no one wanted to be missed in the count. In fact, it has been suspected that misjudged communal enthusiasms vitiated enumeration and exaggerated figures were supplied in certain urban areas. The house lists were used for comparative corroboration and "sound enough results were obtained" in spite of the difficulties.

4. A study in Density of Population: The number of persons per square mile varies from province to province and from state to state (see appendix). We find such extreme variations as Baluchistan with 11 persons per square mile and Bengal with as many as 779. There are several factors responsible for these provincial and state variations.

Density is governed, in the first place, by climate. A healthy climate will attract more people and maintain the existing population. If climate happens to be unfavourable as is in Assam, the density will be very low.

Secondly, the density of population depends on rainfall. If rain is adequate, timely and evenly distributed, it will be highly conducive to the growth of numbers. But rainfall is not the only determining factor. In the Himalayan areas like Dehra Dun, Almora, and Simla, the rainfall varies between 60 and 85 inches in the year, yet the numbers per square mile are very few. Similarly in Assam where the rainfall is plentiful, the density is only 186. The same is true of Kashmir which has a density of only 49. The fact is that no single factor can explain the variations in density. It is only a happy combination of several factors which accounts for higher density.

Thirdly, the irrigation facilities, which stabilize agricultural conditions, lead to denser population. The canal colonies in the Punjab are much more densely populated than some of the other districts.

Fourthly, economic development leads to dense population and the absence of it accounts for sparse population. It is admitted that the number of people that can be maintained in the pastoral stage must needs be very small. In the agricultural stage larger numbers can be supported. But in the industrial stage there is room for many more people. It is well-known that all centres of trade and industry happen to be mostly densely populated. The higher density in Bengal is partly due to this factor and a comparatively lower density in the Punjab is due to the agricultural character of the province.

Fifthly, the nature of the soil also makes a difference. Regions of sandy soil show a lower density as compared with those with fertile soils. Rajputana for instance is very sparsely populated.

Sixthly, perhaps the most important single factor having a bearing on density is the configuration of the area. It is the shape of the surface of the earth which largely explains variations in density. The hilly and the mountainous tracts in the north-east or north-west are less densely populated than the level plains of the Punjab, U.P. and East Bengal. The level tracts afford greater facility for the exercise of economic activities and yield a larger fruit. India is mainly an agricultural country and density varies with agricultural conditions too.

Seventhly, security of life and property is also a factor responsible for the number of people living in an area. In the tribal areas and in certain tracts bordering on jungles, the density is comparatively low.

Finally, inter-provincial or inter-state variations in density are also due to the stay-at-home habits of the people. People cling to their native land even though the prospects of living may be brighter in a remote province.

5. Density in India Compared with Foreign Countries : If we compare the density of population in India with some other countries, there is *apparently* no cause for alarm as is shown by this table.

TABLE III
DENSITY PER SQUARE MILE IN SOME COUNTRIES

U.K.	685	1931
Belgium	...	...	...	654
Germany	...	...	...	352
Japan	...	...	...	443
British India	341	1941

But the inference is wrong, as these are industrial countries and can easily maintain heavy numbers. When, however, we compare India with countries with an agricultural economy, we feel concerned at the seriousness of the problem.

TABLE III (continued)

			Density	Year.
France	...	...	184	1931
U.S.A.	...	...	41	
New Zealand	...	...	12	
Egypt	...	...	34	
India	...	...	246	1941

With such a dense population the pressure on the soil has greatly increased. The agricultural resources of the country have not expanded in proportion. Between 1901 and 1941, the population increased by 32 per cent while the cultivated area increased by 13 per cent only¹ and the area under food crops during the same 40 years increased by 5.3 per cent only. During the war of 1939-1945, when India was cut off from Burma and Australia, India had to face a dearth of food to such a great extent that famine conditions prevailed in deficit areas like Bengal.

6. Is there any connection between density and the level of prosperity in a country ? From table III it would appear that so far as density is concerned we are in the company of rich and prosperous countries like U.K., Belgium, Germany and Japan. Like them we show a very high density of population per square mile. To a superficial observer there might seem some essential

connection between high density and prosperity. It may be argued that if a country contains a large number of intelligent, industrious and resourceful people, they will certainly develop and work the resources of the country to its best advantage and contribute to its material prosperity. The argument seems plausible. But it is fallacious. If a country is densely populated it does not necessarily follow that it must be prosperous. The same density does not indicate the same level of economic prosperity. The United States, admittedly the richest country in the world, has got a very low density of 41 persons per square mile, and though the New Zealanders are fairly rich, yet the density there is as low as 12. Then again, U.K., with the highest density and U.S.A. with low density enjoy nearly the same standard of prosperity. The fact is that there is no necessary connection between density and prosperity. Of the agricultural countries we have the highest density (table III). But far from indicating a larger measure of prosperity and being a matter for congratulations; it is a cause for alarm.

7. The Problem of Urbanization: The following table shows percentage of increase in our urban population.

TABLE IV
PERCENTAGE OF PEOPLE LIVING IN URBAN AREAS

1921	1931	1941
10.2	11	12.8

It is quite clear that about 90 per cent of Indians still live in villages. The conditions in the West are quite the opposite. In the western countries the percentage of urban population varies from nearly 50 per cent in France to 80 per cent in England and Wales.

The distribution of population between rural and urban areas is highly significant. Economic progress in every country has been marked by a corresponding increase in the urban population. The fact that very small proportion of our people live in urban areas is an index of our economic backwardness. It shows unmistakably that in the development of trade, transport and industry we are yet far behind the other civilized countries. It brings home to us our almost exclusive dependence on agriculture and indicates an unbalanced economy.

The rural-urban distribution of the population is significant from another point of view. It throws light on a people's national character. It is well-known that persons living in the villages are lethargic, conservative, superstitious and impervious to new ideas. The villages represent the back-waters of civilization

and regions of intellectual stagnation. This character of the people acts as a drag on economic progress. On the contrary, the inhabitants of the cities are characterized by alertness, industry and resourcefulness. It is from the cities that all progressive ideas radiate and civilization infiltrates into the villages. The fact that we have only a few cities shows that the springs of economic progress are exceedingly weak. Our huge rural population stands in the way of all enlightenment and progress. A country is what its people make it. For the economic progress of the country a toning up of the national character is, therefore, very essential.

These considerations call for a more balanced distribution of our population between rural and urban areas. Not only is the proportion of our urban population insignificant, but progress in this direction has been very slow indeed. From 10.2 in 1921 we have tardily advanced to 12.8 per cent in 1941. We have been almost stationary in this respect.

But although the percentage increase has been very slight, yet the absolute growth in urbanization is very substantial. No doubt the number of big cities in India is very small; there are only seven cities with over 500,000 persons and only 57 with over 100,000. But between 1921 and 1941 the number of cities with 50,000-100,000 persons has gone up from 65 to 95, that of cities with 10,000-50,000 has risen from 543 to 733 and the number of localities with 5,000 to 10,000 has increased from 987 to 3,017. Looked at from this point of view the speed of urbanization seems to be quite fast. Urban population has had an increase of 81 per cent against 15 per cent for the whole of the country. The following are the main causes of this development.

(a) Industrialization is increasing apace with greater aggregation of numbers in the cities. To maintain healthy surroundings and check the insidious inroads of infection and disease, it is most essential that the local authority should strictly regulate further building activities and frame comprehensive plans in time for the spreading towns. Uncontrolled urbanization would bring untold misery and suffering, the effects of which would be impossible to eradicate.

(b) City life has great charm for middle class people. Electric light, running water, tram and bus, all play their part. Educational facilities for boys and girls are another attraction. The library, the theatre and the cinema-house have an appeal of their own to the leisured classes. In fact, the comforts and amenities of life in big cities are rapidly inflating their numbers.

(c) The anti-moneylending legislation in the Punjab has played its part in denuding the countryside of many educated people who have flocked to the town and the city in search of better business.

The Bombay province has the largest percentage of people living in towns while Assam has the smallest, with 26 and 2·8 per cent, respectively. Appendix II shows the number of towns in different parts of India.

It will be noted with interest that in 1941—

94·2	millions of people lived in villages with less than 500 inhabitants
86·96	millions of people lived in villages with 500 to 1,000 inhabitants
57·4	millions of people lived in villages with 1,000 to 2,000 inhabitants
63·4	millions of people lived in villages with 2,000 to 5,000 inhabitants
301·96	millions lived in the rural areas.

The U.P. has the largest number of cities with the Punjab running a good second. Bengal has only four cities including Calcutta. It is not suited for big cities. The Bengali is not fond of factory. In areas where cheap hydro-electric power is available, as in West U.P. and the East Punjab, greater dispersion is as much possible as desirable.

8. Urbanization Not An Unmixed Blessing : There is another side to this picture.

India is a tropical country. Urbanization to the extent that is present in the West is not compatible with her climate. With a bare 12·8 per cent people living in the towns, the congestion in some of the big cities is terrible. Tuberculosis and venereal diseases are rampant, while epidemics take a heavier toll than in the open countryside.

Undoubtedly, as Mr. Yeats, the Chief Census Commissioner, remarks, "this urbanization has all the drawbacks of lack of control and general squalor." Approaches to every big city are hideous. Thousands of homeless squatters are found camping in the outskirts. Brick-kilns are another hideous sight. Lahore "from the air is a spreading sore," Delhi with its "ribbon development" along roads going out of the city is even worse. Calcutta is "as an octopus with more than eight tentacles." Amritsar presents an ugly, repulsive look.

The slums in big cities like Bombay, Calcutta and Lahore which shelter large numbers of labourers are a clear proof of the lack of foresight on the part of the governing bodies. The "tenements" constructed in some of them are an effort to improve factory labourers' residential conditions, but they are neither sufficient nor comfortable. This "slummy" is destructive of both moral and physical health of the labourer.

We do not advocate, therefore, in India piling up of the people in big cities, blindly following the West. We are anxious not to repeat the mistakes of the West. We should have a scientifically planned development of our cities so that all the evils associated with congested areas are prevented from appearing in India. We should have medium-sized, open, airy and healthy towns. What is needed in India is to urbanize the rural and ruralize the urban centres.

9. Distribution According to Occupations : A study of the following table of the vocational distribution of our people will give an idea as to the relative importance of the various means by which our people draw their sustenance.

TABLE V

General occupations		Percentage	Total percentage
A. Production of raw materials	i Animals and vegetation	65.60	65.84
	ii Minerals	0.24	
B. Preparation and supply of material substances	i Industry	10.38	17.56
	ii Transport	1.65	
	iii Trade	5.83	
C. Public Administration and Liberal Arts	—	2.86	2.86
D. Miscellaneous	i Persons living on their own income	.16	13.74
	ii Domestic service	7.51	
	iii Insufficiently described	5.03	
	iv Unproductive	1.04	

Some of the salient features of this distribution are that 65.6 per cent depend on agriculture, 10.38 per cent on industry, 5.8 per cent on Trade and 2.86 per cent are engaged in public administration and what are called liberal professions.

Even a casual observer will be struck by the most uneven distribution of our people over the various occupations. It simply reflects the lopsided nature of our economy resources. If the economic development of the country had taken place in a sufficiently deversified manner our human resources would have shown a more balanced allocation.

Only 2·86 per cent of our people are engaged in administration and liberal arts. This shows a high degree of illiteracy and intellectual backwardness. A serious effort is needed to strengthen the drive for increasing literacy in the country. The civil administration, police and the army absorb only a little over 1 per cent of our population. Even if this proportion is doubled administration will not solve the problem of middle class unemployment. In the absence of alternative sources of employment, however, it is understandable why people fight hard for these limited jobs.

Although 10·38 per cent are shown as being engaged in industry, only 1·5 per cent are accounted for by organized industry. When we know that less than one-fifth of our people are engaged in trade, transport and industry, we find a clue to Indian poverty. These are the most paying professions, and when the bulk of our people drift into unremunerative channels, poverty is inescapable. *Industrialize or perish* should be our slogan. No amount of agricultural rehabilitation can pull us out of the mire of poverty.

The most distressing fact about our vocational distribution is that the overwhelmingly large number of the people are dependent on agriculture. Even Bengal, Bihar and Orissa, in spite of having developed certain industries, are predominantly agricultural and so are the Punjab and U.P. although a very large proportion of their population is returned as individual labour. India shows the highest percentage of people in the world as depending on agriculture.

Agriculture is admittedly the least remunerative of occupations. Experience all over the world has shown that economic progress has always been marked by a diminution in the numbers engaged in agriculture and by an increase in those engaged in trade transport and industry. In England less than 10 per cent of the people depend on agriculture. Indian agriculture is a gamble in the rains and, therefore, always, uncertain of success. It is subject to the law of diminishing returns. It is a seasonal occupation and subjects our people to enforced idleness for several months in the year. Exclusive dependence on agriculture is an index of unbalanced economy and is one of the most important causes of poverty. This situation needs immediate rectification. As long ago as 1880 the Famine Commission issued a warning about the dangers of this situation.

It may be noticed that from census to census the vocational distribution has remained practically the same. There has been no fundamental change in this respect during the last 25 years or

so. A slight increase is observable in the number of persons engaged in transport which is due to the development of motor traffic and also in those engaged in liberal professions which may be attributed to advance in literacy. It is time that we bestir ourselves and make conscious and vigorous efforts to bring about a more even distribution of the people over the various occupations and overcome this economic stagnation.

10. Distribution According to Community: Up to 1931 religious returns were used as communal ones. In 1941 a departure was made from the old method of inquiry. Caste-sorting on an all-India scale was dropped. The Census Report for 1941 says: "The religious returns of previous censuses so far as they relate to the tribes are worthless."¹ No one can explain the meaning of the word religion to an ordinary member of a tribe. The enumerator in the past put down anybody as Hindu if he was not Christian or Muslim. Even an anthropologist could not determine how far a tribesman was assimilated in Hindunism. Hence, in 1941, a more scientific basis for community enumeration was adopted. The comparative communal figures for different censuses are given below:—

TABLE VI²
PERCENTAGE OF DIFFERENT COMMUNITIES IN INDIA

Year	Hindus	Muslims	Christians	Jains	Sikhs	Tribes	Others
1931	68.2	22.1	1.8	.4	1.2	2.4	3.9
1941	65.9	23.8	1.6	.4	1.5	6.6	0.2

Thus one could say that out of every 100 persons in India, 66 are Hindus, 24 Muslims, 7 tribesmen, and out of the rest half Sikhs and half Christians. The Hindus are in the majority in the South and centre of India, while the Muslims are predominant in N.W.F.P., Kashmir, Baluchistan, Sind, Punjab and Bengal. The Sikhs are confined to the Punjab with just a scattering in the other provinces. The tribesmen are mostly found in Assam, Bihar and Orissa. The Christian element is stronger in Madras than elsewhere.

The 1941 Census figures show that the Muslim component in Bengal is unchanged while in the Punjab and Mysore it has increased by $\frac{1}{2}$ per cent. Assam shows an increase due to migration of Muslims from East Bengal. Sind and Ajmer-Merwara show a decline of 2 per cent and Kashmir of about 1 per cent. The most noticeable rise is in Assam where the Muslims have increased by 5.5 per cent.

1. Yeats, Op. Cit., p. 28.

2. Adapted from 1941 Census, Vol. I, p. 104.

The Assam and Bihar figures are interesting as they show a great fall in the Hindu element due to lakhs of people previously described as Hindus now enumerated as tribesmen.

TABLE VII¹
NUMBERS PER 10,000 OF THE POPULATION

Province	Hindus		Muslims		Tribes		
	1931	1941	1931	1941	1931	1941	
Assam	...	5720	4129	3196	3378	872	1747
Bihar	...	8231	7296	1132	1298	544	1391

The Hindus also show a small decrease in Bengal, Madras and U.P. due to tribesmen being excluded from Hinduism. Sind shows an increase of 1 per cent.

11. Sex Ratio : It is a known fact that at birth the number of male children is greater than the females. In foreign countries more males die off, thus leaving an excess of female children to grow up into women. In India too the number of males born is greater than the females. Organically the female sex is the stronger. Recently the League of Nations published a very informative data on the expectation of life in thirty important countries.² The table shows that at all ages, the expectation of life of women is greater than for man in *all countries except in India* up to the age of forty, where mortality among women during the child-bearing age is particularly high. In India up to the age of 12 the mortality of female children is less than that of male children. It is after the age of 12 and up to the age of 45, the child-bearing age, that huge numbers of women are cut off, thus reducing the ratio of females to males in India and creating a problem exactly the reverse of that in the West.³ Early marriage, making an easy transit from the nuptial bed to the funeral pile, purdah and the lack of trained midwives are equally conducive to the greater mortality of women. Pernicious anaemia, consumption and uterine diseases, too, take their heavy toll. Extreme poverty does not permit women to have sufficient rest before or after delivery, thus hastening them into the grave.

The progressive decline in the proportion of females to males from decade to decade is a cause for great alarm.

TABLE VIII
NUMBER OF FEMALES IN INDIA TO EVERY 1,000 MALES

Year	Number of Females	
1911	...	954
1921	...	946
1931	...	940
1941	...	935

1. *Census Report, 1941*, pp. 102-104.

2. *League of Nations' Monthly Bulletin*, December 1944.

3. *Worral P.K.: Population Problem of India.*

Woman is held cheap in India and her health and diet deliberately neglected even in upper class families. This deliberate neglect may be styled "indirect infanticide."

Among the major provinces, the Punjab has the least number of females—only 847 per 1,000 males. Madras and Orissa are the only two provinces with more females than males, but the ratio of females in these also has fallen in 1941 as compared with 1931.

FEMALES PER 1,000 MALES

			1931	1941
Madras	...	...	1,021	1,009
Orissa	...	...	1,087	1,069

Maternal mortality is the most important cause of fewer females in India. Three specific inquiries were conducted by medical men in Madras, Calcutta and Bombay recently which yielded figures of 16·6, 24·4 and 8·9 deaths per 1,000 child-births. The range is rather too wide. Sir John Megaw's village inquiry of 1933 gave a maternal mortality figure of 24·5. The Public Health Commissioner for India makes tentative suggestion of 20 deaths per 1,000 births for India. The latest figures for England and Wales is 2·9.¹ The great difference between the two figures shows the gravity of conditions in India and the great leeway to be made up.

12. Expectation of Life: A child born in India expects to live a much shorter life than in other countries. Elsewhere the average span of life has greatly improved, while in India the improvement has been next to nothing.

Experts have produced comparative figures of the life expectation in several countries. They are:—

TABLE IX
EXPECTATION OF LIFE

New Zealand	... 67 (1934-38)	U. S. A.	65 (1940-41)
Britain	... 62 (1937)	U.S.S.R. (Europe)	44 (1926-27)
Japan	... 48 (1935-36)	British India	... 27 (1931)

A steady increase in the longevity of life in England from 44·13 in 1891 to 55·62 in 1931 and 62 in 1939 reflects a rise in the standard of living and effective medical facilities. Figures collected by the League of Nations show that in all the important countries of the world there is greater expectation to live longer than in India.² That the expectation of life is so short in India

1. Yeates, *Census Report*, 1941, Vol. I, p. 24.

2. *League of Nations' Monthly Bulletin*, December 1944.

is largely due to infant and maternal mortality. With a reduction in the havoc caused by these, the expected span of life should become greater.

As at present a very short expectation of life in India can only mean that labour and expense of bringing up human life do not yield a proportionate return. Persons are snatched away in the prime of their life and at a time when they would start making contribution to the welfare of the community. Being deprived of such rich lives India must needs be poor.

13. Age Groups : The age composition of a country's population can be represented in the form of a pyramid, the base representing the number of children born. All the children born do not survive. As we go up the pyramid, the numbers are cut down so that the pyramid becomes narrower and narrower towards the top. The dimensions and the actual shape of the pyramid reflects the survival rate in the country. India has got the highest birth-rate and the highest death-rate in the world. The Indian pyramid, therefore, has got the broadest base and the tapering upwards is also rather sharp.

A study of the age distribution in India reveals that India has a very large number of children but few old men and women. Very few people survive after 50. Thus all their experience is lost to the country. In Europe a man goes on working till the age of 60 or 65, while in India he retires at 55 from Government service. The ordinary course of productive life in India is much shorter, 15 to 50, while in the West, it is much larger, 15 to 65. Thus the effective population in India is much smaller.

14. Birth-Rate and Death-Rates : India leads the world both in births and deaths. The large number of births is due to the universality of marriage and the high fertility per marriage. The people are illiterate, ignorant and superstitious. They are incapable of exercising any conscious check on the growth of their families. They are superstitious enough to hanker for children in any number, provided they are males. Their standard of living is so low that the increase in the size of the family causes little financial worry.

But if more come, more die too. The high degree of infant mortality is due to early marriages leading to child-wives, ignorant motherhood, defective midwifery arrangements, insufficiency of milk supply and the practice of drugging the child. Female infanticide was also prevalent at one time. The appalling poverty and widespread and ever-recurring epidemics mercilessly cut down the numbers. The labours of motherhood go in vain.

While the birth-rate in India has been practically steady at 33, the death-rate per 1,000 has fallen from 31 in 1920 to 22 in 1940. Prof. Gyan Chand, however, believes that due to the lack of reliable statistics in the villages these figures are too low and he puts them at 48 and 33, respectively.¹ Compared with countries in the West these figures are very high and speak of the terrible waste of human life and energy in this country as is shown by table X below :

TABLE X
Birth and death rates for some countries in 1930

Country		Birth rate	Death rate
Holland	... ..	23	9
U.K	... ..	17	12
Germany	... ..	17	11
Italy	... ..	27	14
France	... ..	18	16
India	... ..	33	22 (1940)

With the progressive fall in infant and maternal mortality, a downward trend of the cholera and plague deaths, a falling death-rate and a steady birth-rate, there was bound to be a greater increase in population in the last decade—a 15 per cent increase in 1941 over 1931. This fall in the death-rate has created in addition a potential for a further increase in population, if nothing untoward happens in the decade 1941-51.²

According to Mr. S. Swaroop,³ the fall in the infant mortality rate from 195 to 160 will result in a substantial addition of 6·5 and 11 million souls in 1951 and 1961, respectively, even if the death-rate falls no further.

An insufficient or foul water supply results in a thousand and one diseases. Hook-worms, tape-worm and dysentery abound in rural area as the result of an impure and infected water supply. An ill-balanced diet without sufficient vitamins, as in rice-eating Bengal, devitalizes humanity and reduces longevity. An anaemic human being is a happy hunting ground for all the diseases. Truly is it said that a nation lives and works on its stomach no less than an army.

A scientific study of dietetics is an urgent necessity, although it can be said that the poor Indian with his low income is hardly in a position to buy a well-balanced diet which will include some milk, vegetables, fruit and meat. Such luxuries are beyond the means of more than 50 per cent of the population. There is a Laboratory at Conoor in Southern India for research in the nutri-

1. Gyan Chand, *India's Teeming Millions*

2. Since this was written, the terrible famine in Bengal killed millions of people.

3. S. Swaroop, Statistical Assistant in the office of the Director-General of Indian Medical Service.

tional value of Indian foods. The results of this research are published in the form of brief pamphlets. They should be made more commonly available to the people, through magazines and daily papers at the expense of Government.

15. Migration: (a) *Emigration to outside India.*—In the history of Europe, emigration has played a major part. It has been estimated by a German economist that in the 400 years since America was discovered, no less than 105 million people have emigrated from Europe and that in the 19th century alone 31 millions migrated to America and elsewhere. Between 1850 and 1900 the U.K. lost no less than 15 million people in this way.¹

Emigration has played an insignificant part in the movements of Indian population. She has ordinarily no more than about three million people resident in the other parts of the British Empire and only about 100,000 in foreign countries like Dutch East Indies, Dutch Guiana, Madagascar, U.S.A., etc. Ceylon, Burma and Malaya have as many as two millions out of the three in the British Empire.² Essentially the Indian is a home-loving animal and is chary of leaving the place of his birth.

Most of the emigrants from India are manual workers who are either indentured or have gone out under a special system of recruitment. The rest are either business-men or artisans who have voluntarily gone out to improve their lot in life. In spite of the great increase in population in the last decade emigration has not served to relieve pressure. One reason why the Indian does not go out in large numbers is that he is not tolerated abroad, whether in the Empire or outside. The recent Pegging Legislation in South Africa is a case in point. The standard of living in the Dominions is higher than that of the Indian immigrants, hence the restrictions on their entry and the segregation of those already settled. This is most unfair, but such treatment is bound to be meted out to Indian citizens so long as India does not win the status of a Dominion. There are many parts of the British Empire in the tropics like British Guiana and Africa where the density of population is low and which are peculiarly suited to Indians. Schemes of emigration from India to such places could be taken in hand with success if the colour bar was given up.

(b) *Migration within India.*—Within India, too, migration is small on the whole, but it plays an important part in the economy of certain areas. Internal migration is of five kinds.³

1. Ramaswamy, *The Economic Problem of India*, p. 45.

2. Cf. *The Indian Year Book*, 1941-42, p. 933.

3. *Census Report*, 1911.

(i) Casual, between neighbouring villages to visit relations or on casual business.

(ii) Temporary, to visit fairs, to work as coolies, to visit places of religious worship, etc.

(iii) Periodic or seasonal, to reap harvests, to graze sheep on the higher ranges of mountains in the summer, etc.

(iv) Semi-permanent, to earn a livelihood at distant places always with the idea of coming back, e.g., to labour in factories in Bombay and Calcutta or to serve as domestic servants in the cities.

(v) Permanent, e.g., to settle in the canal colonies in the Punjab.

The tea gardens in Assam import all their labour from Bihar, Madras and C.P. while the fertile lands in the Brahmaputra valley have attracted settlers from Mymensingh and East Bengal.¹ The tea-estate labour in Assam is now secured under fixed conditions and is well looked after.

The Bengali is, as a rule, averse to work in the mines. Hence most of the industrial work in Bengal is done by immigrants from Bihar, Orissa and the East U.P.

Bombay too gets most of its labour from outside. The Punjab, U.P., and N.-W.F.P. on one side, and Hyderabad and Madras on the other are major contributors.

The stalwart Punjabi is ubiquitous and is found almost everywhere working as a technician, a taxi-driver or a policeman.

16. Public Health : The Indian is uneducated. He knows little and cares less about the laws of sanitation and health. The climate of the country is favourable to the spread of diseases not known in temperate areas. It has been rightly said that India is one of the greatest cesspools of infection for plague, cholera, small-pox, malaria and dysentery. Intestinal worms also play their insidious part in undermining the health of the villager. Tuberculosis works untold havoc. The Royal Commission on Agriculture deplored: "Malaria slays its thousands and lowers the economic efficiency of hundreds of thousands." Malaria is the largest public health problem in India. Deaths from this disease number about a million, and the number of cases is about 100 million per year.

1. Census Report, 1941, Vol. I.

A malaria map of India has been prepared by the Malaria Institute of India. Mr. Yeats remarks about it:¹ "Everyone interested in India should study the map which might well be put on the walls of schools and similar buildings." This map is given on the opposite page. It divides India into epidemic, endemic, hyperendemic and non-malarious areas and is thus very instructive. It will be seen from this map that India has very few areas which are free from malaria. Unless the Indian works from below, vents the mosquito and declares total war on it, malaria will take its yearly toll. Mere government efforts will not be effective. One of the most important aspects of the Rural Uplift Campaign should be the destruction of the mosquito. Fever is not something to which the Indian is borne and which must be borne. Its root-cause must be decimated.

17. Marriage in India—its Universality : Marriage is universal in India. Religion advocates it. Social customs require it. A Hindu cannot aspire to salvation until he has a male issue to perform his funeral rites. No considerations of future poverty restrict marriage—a wife is a cook, a drudge and a mate. The poor man has no intellectual interests, hence over-indulgence in sex. A child is not a burden but an asset as he starts paving his way at an early age.

The 1931 Census figures indicate that 47 per cent males and 49 per cent females were married. These figures are the highest for any country in the world. Nobody, Hindu or Muslim, abstains from marriage if he can possibly help it.

Child Marriage.—Another important feature of Indian society is early marriage. The Sarda Act fixes the age of marriage for girls at 14. It is in advance of public opinion, and does not operate in the Indian States. Child marriage works havoc with health and physique and as a Census Superintendent feelingly remarked, "thousands of child-wives march from the nuptial bed to the funeral pile." There is now a tendency for postponement of marriage in better class families, but more for males than females.

There is a very large number of widows in India—more than 9 millions—between the ages of 15 and 40. Hindus have 124 widows, aged 15 to 40, per 1,000; while Muslims have only 91. Amongst Hindus widow remarriage is religiously prohibited. This is a great check on the growth of population.

The 1931 Census figures for married persons were exceptional as due to the anticipated operation of the Sarda Act (from 1931),

1. Census Report, 1941, Vol. I.

people married off their daughters in 1930 in large numbers. Anyway, it is a revelation that boys and girls are married below the age of 5, as the following table shows :—

TABLE XI
MARRIED PER 1,000 OF EACH SEX

Ages	Males			Females		
	0-5	5-10	10-15	0-5	5-10	10-15
1921	6	32	116	11	88	382
1931	16	79	149	30	193	381

18. The Population Problem in the West : Before the war of 1939-45 and more so during it, the nations in the West have been pining for greater numbers. English philosophers¹ have been visualizing with dread a time when a pram with a kid in it will be a rarity and will attract hundreds of old fogeys on the roadside. The French have been offering concessions in education, taxation and railway fares for larger families, but with little success in their objective. "Too few babies" was diagnosed by M. Petain as one of the causes of the debacle in France in 1940. Hitler adopted well-known totalitarian methods to increase a falling birth-rate. Persuasion and compulsion were skilfully mixed. Mussolini exhorted the Italians to multiply to reach the 60 million mark. Abortion and birth-control propaganda were penalized and a deliberate pro-natalist policy followed. Mother-and-child days were celebrated and prizes awarded for bigger families. It was emphasized that with a falling population one did not create an empire but became a colony.

All these European Powers were anxious to have more numbers in spite of the fact that they had increased considerably between 1870 and 1930, certainly much more than India, a is shown by the following table.

TABLE XII

Country	Population in millions		Increase per cent.
	1870	1930	
Germany	41	64	56
Italy	27	41	52
France	37	40	8
England and Wales	23	40	74
Europe	303	506	64
India	265	353	33

In spite of the decimation caused by World War I, the population of all western countries, except France, increased between

1. McCleary, G. F., *The Menace of British Deopulation*; Reddaway, W.B., *Economics of a Declining Population*, and Glass, D.V., *Population, Policies and*

1911 and 1921 at a much higher rate than that of India which increased by 12 per cent only.

Malthus has been proved a false prophet—at least so far as Europe is concerned. Its population has increased, not in a geometrical progression, but steadily, and a further increase is anxiously longed for and actively sought after. At the same time the processes of material progress have been accelerated. There is more wealth and prosperity. Public health measures have put natural positive checks on population at arm's length. Famines and epidemics are memories of the past. The standards of life have shot up and man has refused to breed at previous rates and in numbers desired by the rulers.

As a consequence there are fears that industrially advanced countries will not be able to keep up their numbers. Their net reproduction rate is *less than one*—as is evident from the table below taken from the League of Nations' Statistical Year Book for 1939-40.

Country	Year for which figure is available	Net Reproduction Rate
Austria	1935	0.64
Britain (England and Wales)	1936	0.76
France	1939	0.92
Germany	1936	0.93
Australia	1939	0.98
U. S. A.	"	1.00
Canada	"	1.09
Italy	1935-37	1.13
South Africa	1939	1.30
Japan	"	1.44

Dr. Kuckzyuski's researches similarly show a declining fertility in all highly industrialized countries in Europe. Dr. Charles proves the existence of similar conditions in Australia. He concludes, "whatever changes in mortality ensue, nothing can arrest a continuous decline of the population in Britain and elsewhere." This decline in Britain is not due to adversity, nor is there any evidence of an increase in physical sterility." According to Prof. Harrod, there are two main causes for this decline :—

(1) The high level of prosperity and well-being that man has achieved for himself. Parents often prefer to go in for a Baby Austin rather than a human baby as the latter adds to their economic liability, the former to their pleasure and comfort.

(2) The use of *efficient* Contraceptives. Mothers in old times had a raw deal. Those who went through the trials and tribula-

tions of having large families were worse off in health and wealth than their friends who avoided this service for society. Hence the invention of efficient contraceptives induced them to throw in their lot with the better-dressed and better-fed.¹

19. The Population Problem in India: The question is often asked whether India is over-populated. In order to be able to answer this question we must know what over-population precisely means. The idea of over-population is closely connected with the concept of optimum population. For every country there is an ideal number which it can maintain in reasonable health and efficiency. The optimum number is not an absolute number, it is relative. It is relative to the economic resources and the extent of their development. If the resources have not been fully developed even a small population may be considered excessive. If, on the other hand, the resources are more fully developed, even a large population may be adequately supported.

There is a certain number which can turn the resources of the country to her best advantage. If the actual number were less than this optimum, the *per capita* income would be less than it can be, for the number is insufficient to develop the resources. It is, then, a case of under-population. If, on the other hand, there are too many people, then the resources are thinly spread over and even then the *per capita* income is less than it can be. It will be then a case of over-population. The term over-population, therefore, means the number of people which has exceeded the optimum.

A distinction is sometime made between state of over-population and the tendency to over-population. In the case of the state of over-population, the country is already over-populated and its *per capita* income is less than it could be. In this case, therefore, any diminution in numbers would lead to increase in *per capita* income. But if the population of a country is increasing in such a manner that the *per capita* income is decreasing, then there is said to be a tendency to over-population. In some countries, like India, there may be both a tendency to and a state of over-population. Prof. Carr-Saunders has defined over-population as meaning that there are too many people in relation to the whole set of facts.

Let us now see whether India is over-populated. Different views have been expressed on the matter. There are some people who think that India is not over-populated. It is argued, in the

1. Harrod, R.F. *Britain's Future Population*. (Oxford Pamphlets on Home Affairs).

first place, that density of population in India is much lower than in most of the European countries, which are pining for still larger numbers and that the natural resources of the country are immense. This inference is certainly fallacious. Our potential resources are no doubt vast but they have not been yet thoroughly and adequately exploited. When we want to consider whether a country is over-populated we must consider not the potential but the actual resources. Considering our existing resources and the extent to which they have been developed, there is not the least doubt that even the lower density is burdensome. The countries with higher density are materially much more advanced and they can well maintain larger numbers than we can with our meagrely developed resources. There are reasons to believe that the *per capita* income in India would have been higher if our numbers were smaller. There are millions of living souls in India who do not pull their full weight.

Secondly, it is contended that every successive estimate of our national income has shown an increase in the *per capita* income. How in the face of it, it may be asked, can there be any over-population in India? We can easily dismiss this argument by pointing out that increase in *per capita* income would have been much more substantial, if population had not increased so rapidly. National income has been increasing but population has also been increasing, so that the share of each individual is smaller than it would have been.

Thirdly, it is pointed out that India has suffered from scarcity of labour and that it looks paradoxical that there should be a scarcity of labour in an over-populated country. But it may be pointed out in reply that it is scarcity not for unskilled manual labour but for trained skilled labour. In view of the deplorable lack of facilities for training industrial labour, there is nothing surprising in the phenomenon of scarcity of labour even though the country is over-populated. Further, the phenomenon of scarcity of labour is now a thing of the past. Since the unprecedented economic depression of the thirties few industries in India have really experienced any serious shortage of labour.

There is thus not much in the arguments of those who say that India is not over-populated.

In case we wish to find a positive proof of over-population in India, we may appeal to Malthus. Scientists like Darwin have emphasized the universality of the law of over-production as applied to living organisms. According to Darwin, "every organic being naturally increases at so high a rate that, if not destroyed,

the earth would soon be covered by the progeny of a single pair." The offspring of a single pair of thrush in 20 years or so would multiply to such an extent that only one in 150,000 would be able to get a perching space on the whole face of the earth. The offspring of a single green fly, if all survived and multiplied, can weigh down the population of China at the end of the summer. Human beings are no exception to this all-pervasive law of procreation. It has been estimated that a single couple is capable of producing, at the present rate of increase, in 1750 years, a number of persons equal to the existing world population; such is the prolificness of nature.

On the ground of observations like the above, Malthus came to the conclusion that unless population is checked, it would sooner or later outrun the means of subsistence. We have seen that Malthus has not proved a true prophet so far as the Western countries are concerned. But the Malthusian doctrine finds a very apt illustration in the case of India.

If we can show that population in India has gone on increasing unchecked, then we shall have a strong presumption in favour of the state of over-population in India. For this purpose we shall have to see to what extent the various checks contemplated by Malthus have been in operation. These checks are :—

(a) *Lower marriage rate.*—In some European countries married life is not supposed to be the normal condition in life and there is a large number of bachelors and spinsters. But in India, as we have seen above, marriage is universal. For the illiterate marriage is a sort of religious *farman* and some social obloquy attaches to an unmarried person. Everybody in India, therefore, marries either by choice or under social or religious injunction.

(b) *Lower fertility per marriage.*—Universality of marriage need not have led to increased population if only less number of children were born per marriage. Lower fertility could be achieved by marrying late, through deliberate self-restraint or by the use of contraceptives. But marriages take place very early in India except in the case of a microscopic minority of the highly educated families. Also, from consciously keeping down the numbers, the majority of the population are keen on having children and actively believe in the doctrine, "He who gives the mouth will also supply the food." The deliberate checks to the growth of population are thus conspicuous by their absence.

(c) *Lower fecundity.*—A distinction is sometimes drawn between fecundity and fertility. Fecundity means the power of

procreation and fertility the actual increase. A lower fecundity might mean a less number of issues. Some writers believe that an Indian possesses a poorer physique, a lower vitality and hence a lower fecundity. This should have, therefore, meant lower fertility. Although this conclusion is of doubtful validity, yet, if we subscribe to it for the sake of argument, it does not necessarily follow that less number of children should be born per marriage. In India, it is said, that even lower fecundity finds the fullest expression and results in larger families.

(d) *Infanticide*.—At one time the practice of female infanticide prevailed in India and it might have exercised a serious check on population. But no one in his senses would advocate such an ignoble and criminal method of checking population. All social reformers are happy that this black mark from India's face has been effaced.

Thus we see that what Malthus has called preventive checks do not operate to check population in India. On the other hand, positive checks like famine and epidemics have a full play and are very frequent and regular visitors to India. That is exactly what Malthus said. He warned that if population was not checked by the exercise of preventive checks, a country would become over-populated relative to food supply and then positive checks would operate to cut down the numbers. The phenomenon of highest birth-rate may be taken as an acid test that the country is over-full with people. It cannot keep alive those who are brought into the world by reckless breeding. Dr. Hutton, the Census Commissioner, remarked in 1931: "Attention has already been drawn to the *grave increase* in the population of this country. The actual figure of the increase alone is a little under 34 millions, a figure approaching equality with that of the total population of France or Italy." In a similar vein Mr. Yeats talks of the 50 million increase in the 1931-41 decennium, an increase greater than the total population of any country in Europe except Germany and Russia. Although there is nothing surprising in the percentage increase of 39 between 1891 and 1941, which is less than that of England, Germany, Russia, etc., yet the total increase gives a shock. Was not Malthus right after all? The high maternal and infantile mortality rates, the short span of expected life, the low *per capita* income are sufficient indications of the fact that the country is overflowing with people. Serious students of population problems like Dr. Radha Kamal Mukerjee,¹ Mr. P.M. Wattaland² and Prof. Gyan Chand³

1. *Food Planning for 400 Millions.*

2. Presidential address at the All-India Population Congress, 1938.

3. *India's Teeming Millions.*

are convinced that the Indian population is running ahead of the food supply. The recent food crisis in Bengal points to the deficiency in India's food supply to maintain her children. Dr. P.J. Thomas thinks that, considering the increased manufacture of cloth, sugar, cement, etc., the Indian industry is very much ahead of the population increase. We cannot agree with this view, for the standard of living in India is still dreadfully low. No deliberate checks are employed to restrict numbers. Marriage is universal. There is chronic unemployment in the country. All these factors positively point to a state of over-population. Numbers have already crossed the optimum figure and an abatement would certainly result in a betterment of conditions. There are few economists now who seriously question the contention that India is over populated.

20. Remedies : The fact of over-population can be readily conceded. Let us now examine the various remedies suggested.

(a) **Voluntary Checks :** There is hardly any room for doubt that the positive checks pictured by Malthus do work in India in the absence of conscious or preventive checks. As a result of unrestrained procreation millions obey the inexorable law of nature and go "to fatten the earth which could not fatten them."¹ Infantile death-rate is so high because of the lack of sufficient nourishment. This weeding out is a very painful process and brings infinite suffering in its train. Poverty encourages breeding and larger numbers result in greater poverty. Thus a vicious circle is set up which has to be broken through at all costs to relieve this misery.

(i) **Moral Restraint.**—Further increase in numbers must be restrained. With enhanced material progress, a planned utilization of natural resources, and greater industrialization, it is possible for India to support a bigger population a hundred years hence. Today, however, with a foreign government conserving British interests in this country, it is essential to cut our coat according to our cloth and to exercise a deliberate control on further increase of numbers.

Deliberate restraint and voluntary separation, however, are not an easy business and will not serve to check births, human nature being what it is.

(ii) **Artificial Birth-control.**—The use of contraceptives to control birth is believed by some medical men to be harmful to

1. The Royal Commission on Agriculture, 1929.

nerves. It is also asserted that a dissemination of knowledge of contraceptives will encourage promiscuity and immorality. They are further supposed to be beyond the pocket of the poor man. In spite of the objections, however, it is essential to open and maintain clinics at public expense in order to initiate young married couples into the use of and need for birth-control methods. There may be an abuse of this knowledge in early stages, but the gain from putting a stop to the "torrents of babies" will be far greater than the harm done. There is no other equally efficacious method to keep families within reasonable proportions. Sir Ardeshir Dalal, the Member for Planning and Development, Government of India, said, in a speech in Canada on July 18, 1945, that a policy of birth-control to raise India's economic production and national income was urgently needed. Mrs. Margaret Sanger, the well-known American exponent of birth-control, commenting on India's need for birth-control, said, "An attempt to raise the standard of living and the *per capita* income of the people of India without corresponding efforts to control their fertility would be a complete failure." Prof. Gyan Chand also suggests the reduction of birth-rate in India by means of voluntary clinics and propaganda agencies until the country is able to change the "whole set of facts" mentioned by Prof. Carr-Saunders.

The only cogent objection to the use of contraceptives is that the intelligent and strong may start using them, leaving the ignorant and the weak to propagate the species thus bringing about a deterioration in the quality of the race. Such dangers are remote in India, where both sexes have an ingrained instinct to have a male issue. And under these circumstances even a Bombay plan may lead to a higher birth-rate than a decline unless active steps are adopted to control numbers. The war is teaching the lesson, "Plan or Perish." No activity of life, social or economic, can be safely neglected.

The science of eugenics is in too early a stage and its application too unpopular yet, even in advanced countries, to be considered. The individual will not give up his liberty unless the State uses dictatorial methods. There is no harm, however, in contemplating the compulsory castration of those suffering from incurable venereal disease and consumption or those who are declared unsound of mind.

(iii) *Postponement of Marriage.*—Early marriages mean more births and deaths. Marriage at a later date would mean fewer births no doubt, but also fewer deaths. The postponement of marriage, therefore, would not serve the purpose of checking the

increase in numbers, but it would certainly avoid the present loss in life and energy. Hence it is desirable for itself.

(b) **Migration** : The pros and cons of emigration as a method of relief for pressure of population have been considered and it has been concluded that, with her present political status, India is not in a position to benefit from it. There is not much to hope for from internal migration too. There is not much "culturable waste" land except in Assam, C.P. and the Punjab.¹ This "waste land" too, however, in spite of the inferior quality of the available soil, is in the process of being utilized. Anyway, plans for a better distribution of population to correct its present lopsidedness may be undertaken for whatever little they are worth.

(c) **Public Health measures** : A smaller but more healthy population is to be preferred to a bigger one which is sickly and short-lived. In the beginning, public health measures meant to reduce infant and maternal mortality and to checkmate the devastating effects of malaria, dysentery, consumption and worms will not only bring about an increase in numbers but also add a potential for further increase. Such measures will, however, improve the quality of the population and add to its longevity and relieve the present misery. In the long run they will set at work automatic brakes to put a stop to the rapid increase in numbers.

The problem should be tackled in all its various aspects as discussed below.

(i) *More Hospitals and Dispensaries.*—India is very deficient in trained doctors and well-equipped hospitals. At present there is only one hospital for about 40,000 persons in the urban areas and conditions are much worse in the villages. The accommodation for indoor patients is very inadequate. Patients have to wait for weeks and months before they can find room in good hospitals. A planned increase of hospitals is urgently needed.

Travelling rural dispensaries could do immense good in rural areas. Training in Unani, Vedic and Homoeopathic systems could be put on a scientific basis and utilized to relieve suffering humanity.

(ii) *Research.*—There is urgent need for research in tropical diseases. Institutions of the type of the Calcutta School of Tropical Hygiene could be multiplied with advantage. The results of such research should be made available in the form of drugs and medicines through their manufacture on a mass scale, thus eschewing the present dependence on foreign imports.

1. See Chapter on Agriculture.

(iii) *Sanitation*.—The inculcation of sanitary and hygienic habits, both in urban and rural areas, is most important. The efforts of the public health authorities will not bear much fruit till the people have the will to improve. Intensive propaganda through exhibitions, demonstrations, lectures, magic lantern slides and the screen will have far-reaching effects in creating the will to improve. Tempting prizes for sanitation and cleanliness in the villages will stimulate efforts. The Bengal scheme of Circle Sanitary Inspectors may be considered for all-India adoption with necessary modifications to suit circumstances. Trained *dais* and midwives may be provided in villages with subsidies from local and provincial governments. Rural Health Leagues with the village school-masters as the nucleus may be started. In fact, every weapon available to hand should be put in service to ensure an intensive propaganda to reach the remotest village and the most ignorant and self-centred bumpkin.

(iv) *Nutrition*.—Dr. W.R. Ackroyd, Director of the Nutritional Research Laboratory at Conoor, in South India, has calculated that a working man needs 2,500 calories of energy from the food he daily consumes. The present diet of the average Indian is very much deficient in respect of animal proteins and vitamins. It needs to be implemented by milk and its products and green vegetables to a large extent to maintain health and strength. Ignorance and religious prejudices are only partly responsible for the poor diet of an Indian. The main factor is poverty. "The prime cause of half empty stomachs is empty stomachs."¹ Investigations carried out in different places show that as the worker's income rises he eats better food with a greater variety in it. The coming generations have to be more specially looked after and their vitality improved. Municipalities and District Boards should try to supply a certain quantity of milk to schoolboys in the middle of the day.

(d) **Increased Production** : The experience of Europe has shown that a rise in the standard of living automatically releases certain physical and psychological forces which reduce the tendency of population growth. Although the *rationale* of lower fertility has not yet been analysed and understood, yet there is no reason to believe that the same forces will not work in India as in Europe, once the living standards start rising. Population is not a snowball that will go on adding to itself till a catastrophe stops it. "Once the standard itself has become a constantly rising quantity it meets a check sooner or later, and then indivi-

1. Masani, M.R., *Your Food* (Tata Series on Current Affairs), p. 78.

duals are prone to seek a qualitative relief by a quantitative limitation."¹ A material betterment by improved efficiency will produce its natural effect on an individual's procreative tendency. This betterment should be big enough for the average individual to take interest in his own future welfare and thus to control his own actions. Such a betterment can ensue only from a thorough planning of both agriculture and industry.

(i) *Agriculture*.—Increase in agricultural production needs all kinds of improved irrigation, by canal, tube-well or dam, whichever is suited to a province and meets its particular problems. It further needs more agricultural machinery of the type suited to India, not necessarily large-scale machinery used in the U.S.A., Canada and Russia with their vast spaces.² An intensive use of chemical fertilizers imported from abroad (U.S.A.) would increase the produce per acre and enable India to wipe off her present deficiency in rice. Fair and stable prices must, however, be guaranteed to the producers either through tariffs or through international action, for the ultimate objective is an improvement in the standard of life of all classes of people including the peasant.

(ii) *Industry*.—To attempt nothing because India has not a national government to put in operation a single revolutionary plan is shortsighted. The world war II, in spite of the handicaps on imports of capital goods, has enabled Indian industry to develop in many directions. It has been recognized that India should be encouraged to meet her own needs of processed articles³ and that Britain should content herself with supplying India with machinery and tools and goods of a finer quality not yet possible to manufacture in India. During this war, India has been largely exporting manufactured goods to the Middle Eastern countries.⁴ This export is bound to reduce the pressure of population and to raise standards in India, ultimately creating the much desired tendency to a fall in numbers.

(e) **Education** : Indian masses are uneducated and ignorant. The 1931 Census literacy figures show India to be the most backward of all nations in this respect.

1. Kharve, D.G., *Economic Studies*, p. 134.

2. Sir P. M. Kharegat and Dr. Ackroyd at a Press interview at Delhi after representing India at the United Nations Food Conference at Hot Springs in U.S.A. in 1943.

3. Mr. L.S. Amery, Speech to the British Institute of Export, England, July 1943.

4. *See Chapter on Foreign Trade.

No amount of propaganda can be effective here unless the impetus comes from the people themselves. Population will run up to the increased means of subsistence so long as education and birth-control schemes do not work simultaneously.

Free compulsory primary education along with a comprehensive plan for educating adults are essential. The Punjab scheme of "each one, teach one" should prove very useful here. No scholarships and fee-concessions should be granted to any student in a college till he undertakes the work of making *two* persons literate. Russia has worked miracles by a planned system of education in a short period of time. The Punjab has made remarkable progress in the last decade in the literacy field—the increase in female literacy being 390 per cent and male 110 per cent.

For the whole of India the 1941 Census reports a 70 per cent increase over the 1931 figures, 60 per cent for males and 150 per cent for females.

With such growth in literacy there is no reason to despair, for the ball gathers momentum as it travels further. Things are bound to improve and brakes to apply themselves automatically to the "torrents of babies" visualized by some pessimists.

CHAPTER III

INDIAN AGRICULTURE

AGRICULTURAL PRODUCTION

1. Introduction : After studying the general physical and demographical background, we are now in a position to approach the economic problems and organization of India in detail. Take Agriculture first which is our premier industry. Its importance to the country and the welfare of the people is enormous. In the words of Sir John Strachy, "It is probable that 90 per cent of the whole population of India are so closely connected with land that they may properly be called agriculturists." Agriculture provides food for our teeming millions, raw materials for our growing industries, business for the trading classes and revenues to the Government. One finance minister called the budget of the Indian Government a gamble in rains. Any step, therefore, which aims at raising the standard of living of our agricultural classes, *ipso facto*, aims at the general prosperity and industrial, commercial and administrative efficiency of the country as a whole.

In the next few chapters we propose to study the facts and problems relating to Indian agriculture. The extent of cultivated and cultivable area, its distribution according to crops, productivity of Indian agriculture, causes of low yield, systems of land tenures, equipment used by the peasant on his small and scattered holding, methods of marketing, agricultural finance and the role of the state in relation to this industry, all will receive our attention. The object throughout will be to describe the present position exposing its defects and to suggest reforms wherever necessary. The present chapter deals with agricultural production and its problems.

2. Distribution of total Area : The total area of British India, according to village papers, is about 512 million acres. In 1940-41, this area was distributed as follows. Comparative figures for 1900-01 are also given :—

	1900-01 Acres millions.	1940-41 Acres millions.	Per cent of the total.
Under forests	... 55	68·2	13·3
Not available for cultivation	... 82	86·7	17·0
Culturable waste	... 81	97·8	19·1
Current fallow	... 40	45·2	8·8
Net sown with crops	... 186	213·9	41·8
Total	... <u>444</u>	<u>511·8</u>	<u>100·0</u>

Total sown, including area sown more than once in 1940-41	...	247.9
Area irrigated	...	55.7

The above table brings out the following facts :—

- (a) Inclusive of area under forests, 30.3 per cent of the total area is not available for being put under crops.
- (b) If leaving land "fallow" is also regarded as essential, then about 40 per cent of the total area is not available for cultivation.
- (c) Culturable waste is about one-fifth of the total area. As we shall see later, most of it is not really fit for cultivation.
- (d) Three-fourths of the total cultivated area has to depend upon rainfall for the maturity of its crops. Hence there is a great element of insecurity in Indian agriculture.
- (e) Only about 16 per cent of the cropped area is sown more than once in a year. This indicates the lack of irrigational facilities and hence limitations on intensive cultivation.
- (f) The area actually under crops in 1940-41 was only 42 per cent of the total area, *i.e.*, about 214 million acres in all. This comes to just about one acre of land per head of the agricultural population, or about 5 acres per cultivating family. On the basis of the total population of India, the cultivated area per head is about four-fifths of an acre. In Japan only 16 per cent of the total area is arable and the cultivated area per head of population is one-third of an acre. But productivity per acre there, as we shall see later, is much higher due to more intensive methods of cultivation employed.

3. Relative Importance of Crops : Of the total sown area (including area sown more than once), amounting to 248 million acres in 1940-41, 80 per cent was under food crops and the remaining 20 per cent was under non-food crops. Foodgrains alone accounted for 75¹ per cent of the total.

1. Here it may be remarked in passing that this indicates a very unsatisfactory state of economy. Before the second world war India exported an insignificant amount of food materials. In fact she had to import rice from Burma, Thailand and Malaya. It is obvious that the food she produces is not enough for feeding her own population. Thus three-quarters of our population and four-fifths of our cultivated area is engaged just to feed the people, even that inadequately. In England about six people are enough to supply food directly or indirectly to one hundred of the population. This is a sad commentary on the use of primitive methods of cultivation and backwardness of our economic organization.

The following table indicates the relative importance (in a normal year) of the principal crops grown in India with respect to the area under each, its yield and the proportion of the total produce exported abroad. The statistics relate to the year 1939-40 and include British India and some Indian States :—

INDIA, INCLUDING SOME INDIAN STATES, 1939-40

Crop	Area		Yield	Measure of yield	% of total exported
	million acres	% of total area			
Food Crops—					
1. Rice	... 73·2	28·6	25·36	million tons	1·1
2. Wheat	... 34·01	10·7	10·75	„ „	0·1
3. Jowar	... 33·39	8·9	6·50	„ „	...
4. Bajra	... 17·37	5·4	2·45	„ „	...
5. Gram	... 13·04	4·8	3·29	„ „	...
6. Sugarcane	... 3·62	1·5	4·59	„ „	...
Non-food Crops—					
1. Tea	... 0·83	...	452·60	„ lbs.	78·9
2. Cotton	... 21·35	5·5	4·91	„ bales (400 lb.)	59·6
3. Jute	... 3·17	1·3	9·74	„ „	33·0 (raw)
4. Linseed	... 3·71	1·0	0·47	„ tons	46·9
5. Rape and Mustard	... 6·11	1·4	1·12	„ „	2·2
6. Sesamum	... 4·05	0·9	0·42	„ „	0·8
7. Castor-seed	... 1·00	0·2	0·10	„ „	...
8. Groundnut	... 8·20	2·2	3·15	„ „	18·3
9. Indigo	... 0·04	0·02	0·005	„ cwts.	...
10. Coffee	... 0·18*	0·04	40·11*	„ lbs.	...
11. Rubber	... 0·14	0·03	31·40	„ „	...

*(1938-39)

It will be seen, that from the point of view of production, food crops (especially wheat and rice) are the most important, while from the point of view of exports, non-food crops like tea, cotton, jute, linseed and groundnuts are predominant.

4. Study of Food Crops: A word may now be said about each of the principal crops produced in India.

(i) *Rice*.—Rice is the most important crop of India. It is grown in low-lying, well-watered tropical regions. In 1942-43, there were 70·4 million acres under rice in British India. The total yield was 23 million tons. The area under rice was distribut-

ed as follows :—

Province	Area mill. acres	Province	Area mill. acres
Bengal	... 23·1	U. P.	7·0
Bihar }	...	C. P. and Berar	5·8
Orissa }	... 14·3	Assam	5·1
Madras	... 10·4	Elsewhere	4·7
		Total	70·4

The average acreage in British India under rice for 31 years ending 1942-43 was 68·0 million acres. The average yield for the same period 25·4 million tons. Yield fluctuates much more than area, due to variations in rainfall, floods, insects, pest and diseases.

Rice is a winter crop and is harvested from December to January. Different varieties of rice are grown in different parts of the country according to variations in local conditions. In Bengal, for instance, there are two harvests—the *aus*, or the early crop, and the *aman*, the later crop. *Aus* requires less rainfall than *aman*, is coarse and is eaten by poorer classes alone. In case the rains fail, it also serves as a provision against famine. In deltaic swamps, rice is practically the sole food crop.

Since the separation of Burma, India has become a net importer of rice. In 1939-40, India imported 1·8 million tons of rice, mostly from Burma. The exports, on the other hand, were only 262,000 tons. Before the separation of Burma, India was the largest exporter of rice in the world. Import stopped after 1942 due to Japanese occupation of Burma. Now it will soon be resumed.

(ii) *Wheat*.—Wheat is next in importance to rice. It is a *rabi* crop and is harvested from March to May. It thrives in conditions exactly the reverse of those suited for rice; hence it is cultivated in places where rice does not grow. The water supplied for growing it is by irrigation of one kind or another. India, next to the United States, Russia and Canada, is the largest wheat-producing country in the world. The total area under wheat in British India in 1942-43 was 25·9 million acres. The total yield was 9 million tons. The distribution of the area was as follows :—

	Million acres
Punjab	10·4
United Provinces	7·6
C.P. and Berar	2·5
Bombay	2·7
Sind	1·2
Bihar and Orissa	...

According to the final all-India wheat forecast, the total area under the 1944-45 crop is 35·7 million acres and the estimated yield is 10·4 million tons. These figures represent an increase of 5 per cent and 7 per cent in the area and yield respectively over the preceding year.

Wheat is the staple food for the people of the Punjab, North-West Frontier Province and the United Provinces. Elsewhere it is produced mainly for export. Very little of wheat is now exported to foreign countries. In 1939-40, only 7,800 tons (valued at Rs. 10 lakhs) were exported. Before the First Great War, India used to export more than a million tons of wheat a year. The fall in exports was due to low prices (before the recent war) prevailing in the international market and increased supplies from exporting countries, like Canada and Argentina.

(iii) *Millets (Jowar and Bajra).*—These are chiefly consumed by the masses in Madras, Bombay and Hyderabad. They are used also as fodder for cattle. In 1941-42, they were grown on 36 million acres in British India, yielding 6·2 million tons in all. The principal growing areas in 1942-43 were :—

Million Acres			
	Jowar	Bajra	
Bombay and Sind	... 8·0	5·8	
Madras	... 4·7	2·6	
C.P. and Berar	... 5·4	...	
U.P.	... 2·1	3·0*	
Punjab	... 0·8	4·1	

*Figure for 1941-42

Very little of these grains is exported. In 1939-40, 7,000 tons of jowar and bajra valued at Rs. 7·45 lakhs were exported.

(iv) *Pulses.*—Pulses are grown throughout the country and form an essential part of the diet of the people. The chief growing areas, however, are the United Provinces, the Punjab, Bombay and the Central Provinces. Gram is the leading one and is grown largely in the United Provinces (5·6 million acres in 1942-43) and Punjab (4·7 million acres). Exports are comparatively small. In 1939-40, 73,000 tons valued at Rs. 95 lakhs were exported. In 1941-42, 12·7 million acres were under gram in British India.

(v) *Maize.*—In 1941-42, there were 5·6 million acres under maize in British India, which yielded about 2 million tons of crop. The main producing provinces in 1942-43 were United Provinces (2·4 million acres) and the Punjab (1·2 million acres). Maize is an important foodgrain for the poorer classes in Northern India.

(vi) *Sugarcane.*—Area under sugarcane in India is larger than in any other country of the world. In recent years, the sugar industry has been enjoying protection. This has stimulated the

production of sugarcane all the more. At the beginning of the present century there were about 2½ million acres under sugarcane in British India. Now there are about 4 million acres. The chief cane-growing provinces are :—

1942-43		Million acres
United Provinces	...	1·8
Bihar	...	0·4
Punjab	...	0·4
Bengal	...	0·3

The average yield per acre of sugarcane in India is much lower than in other important producing countries and the quality also does not compare favourably with them. Since the beginning of the present century, the Government has given special attention to improve the quality and supply of sugarcane. A cane-breeding station was started at Coimbatore in Madras. The Provincial Agricultural Departments have introduced many new varieties of sugarcane, which give greater yield per acre.

5. Non-Food Crops : (i) *Tea*.—With the exception of China, India is the biggest producer of tea in the world. The chief centres of production, with area under cultivation in 1939-40, are given below :—

	Acres		Acres
Assam	... 438,300	Punjab	... 9,500
Bengal	... 200,800	U. P.	... 6,600
Madras	... 79,200	Travancore	... 77,000

Tea is mostly grown for export. In 1939-40, U.K. took 80 per cent of the total Indian exports—which represented 79 per cent of the total Indian production for that year. The tea industry has derived considerable benefit from the recent war. The consumption of tea in India is rapidly growing, due to the propaganda activities of the Indian Tea Association. These activities, which are also popularizing Indian tea in foreign countries (e. g., U.S.A.) are financed by a cess (12 annas per 100 lbs. since 1935) levied on tea export from India. In 1939-40, India exported 357 million lbs. of tea.

(ii) *Coffee*.—The cultivation of coffee reached its zenith in India in 1862, since when it has been declining. In most places, tea has been substituted where coffee was grown before. The decline has been due to the appearance of a destructive beetle and latterly to the competition of cheap Brazilian coffee in the European market. In 1939-40, the area under coffee was distri-

buted as follows :—

		Acres
Mysore State	...	96,200
Madras	...	49,600
Coorg	...	37,500
Cochin	...	1,800
Travancore	...	1,000

In 1939-40, India exported 168,000 cwts. of coffee, valued at Rs. 73 lakhs. Since 1935 there is an All-India Coffee Committee, which carries on propaganda (financed by a cess of 8 annas per cwt. on exports) to popularize this beverage.

(iii) *Oilseeds*.—The main varieties of oilseeds grown in India are linseed, rape and mustard, sesamum and groundnuts. In 1942-43 in British India alone, there were 21 million acres under these and other oilseeds (cocoanut, castorseed, mowra, coriander, cumin, etc.). In 1939-40, India exported 849,000 tons of oilseeds, valued at 11·8 crores of rupees. The main areas producing various kinds of oilseeds are :—

Total British India.—21 million acres.

(a) *Linseeds*.—C.P., Bihar, U.P., Hyderabad (Deccan), Bombay and Bengal.

(b) *Rape and Mustard*.—Chiefly in U.P., and to a smaller extent in Bihar, Punjab and Assam.

(c) *Sesamum*.—Madras, C.P., Bombay, Hyderabad, U.P., Punjab, Bengal, Bihar and Orissa.

(d) *Groundnuts*.—Madras, Bombay, Hyderabad, C.P. and Berar.

Linseed is mostly grown for export; about one-fifth of groundnuts produced is also exported. The others are not important as regards export.

(iv) *Cotton*.—Cotton is the chief fibre crop of India. The black cotton soil of Deccan is best suited for its growth; hence Bombay Province is the important cotton-growing area. In 1942-43, there were 11·5 million acres under cotton in British India. A year earlier the acreage was 19·8 million acres. The producing areas are :—

		1942-43	Million acres
Bombay	3·3
C. P. and Berar	3·2
Punjab	2·3
Madras	2·1

There is a large export trade in cotton. About 60 per cent of the production is exported. After the outbreak of the recent war, especially after our great customer Japan joined in, the exports of cotton considerably declined. The Continent of Europe was also an important customer before the war.

The quality of Indian cotton is generally regarded as inferior. It is said to be "shorter in staple, poorer in spinning value, and smaller in yield per acre." This inferiority is due to various causes: (a) No incentive to improve quality because it is exported for mixing with wool and gets fair price as it is. (b) Inferior quality is extensively cultivated because it withstands drought better. (c) Seed is separated in ginning factories and gets all mixed. Thus there is little opportunity for selection of better seed. (d) The cultivator cannot readily find a local market for long staple cotton and thus does not grow it.

Various attempts have been made to improve the quality and yield of Indian cotton. Mr. Jamshedji Tata tried to grow finer long staple cotton by importing seed from Egypt, but the experiment did not prove a success. In 1905, the Government of India appointed a cotton expert. About the same time the British Cotton-Grower's Association advanced a sum of £10,000, to be distributed among the cultivators, to encourage the growing of superior cottons. The various Agricultural Departments have also been engaged in the task of evolving superior cotton varieties, indigenous as well as exotic.

In 1917, the Government of India appointed a Committee—the Indian Cotton Committee—"to examine the possibilities of increasing the supply of long-staple cotton in India, to suggest improvements in the existing methods of ginning and marketing, and to make recommendations in regard to the prevention of adulteration, damping and mixing, etc." The Committee reported in 1919 and made the following recommendations:—

(a) Regarding the agricultural aspect, the Committee emphasized that botanical work can improve the quality and increase the yield of Indian cotton.

(b) As regards the commercial side of the problem, the Committee recommended: (i) the establishment of open markets on the Berar system, (ii) the publication of cotton prices for the benefit of the cultivators, (iii) the organization of cotton sale societies and the standardization of weights, and (iv) arrangements for protecting the seed from adulteration.

(c) The Committee further recommended that a Central East Indian Cotton Association should be established in Bombay,

in place of the several existing bodies, to control the whole cotton trade.

(d) Finally, the Committee proposed the creation of the Central Cotton Committee, to promote the welfare of the cotton-growers, and to bring into closer touch the Department of Agriculture and the cotton trade.

Action was taken on the recommendations of the Committee, though after some delay. In 1922, the East India Cotton Association was formed. The year before, the Central Cotton Committee had held its first meeting. In 1923, a Cotton Transport Act was passed to prevent adulteration of cotton. It was first applied to Bombay and was then extended to Madras. Two years later, in 1925, a Cotton Ginning and Pressing Factories Act was passed. This Act was a corollary to the Transport Act. The Indian Central Cotton Committee has undertaken a variety of activities with a view to improve the quality of Indian cotton. It has established a technological laboratory at Bombay to carry out spinning tests, etc., has started, in co-operation with the Central India States, experimental work on cotton through the agency of the Institute of Plant Industry at Indore and is promoting special research schemes in the various provinces. The activities of the Committee are financed by a small cess, of two annas per bale, imposed on all cottons used in mills in British India and exported from India. In 1927, Cotton Markets Act was passed in Bombay, the provisions of which were later, in 1939, incorporated in the Bombay Agricultural Produce Markets Act. Similar Acts have been passed in the Central Provinces and Madras.

"What is now clearly required" says Dr. Burns "is the production of longer stapled American cotton varieties for Sind and the Punjab. The Indian Central Cotton Committee has for the past three years been financing research at Mirpur Khas for this very purpose. Progress up to date has been rather slow and it seems desirable that more money and effort should be applied to this question."¹

(v) *Jute*.—India is the sole producer of jute in the world. Bengal contributes about 90 per cent of total production ; and 20 per cent of the income of a Bengali is due to jute. Though it occupies only 1·3 per cent of the total cultivated area of India, exports of jute (raw and manufactured) account for more than 33 per cent of the total export trade of this country. During the last

1. Burns, W., D.Sc., *Technological Possibilities of Agricultural Development in India*, p. 85, 1944.

half a century or so, the area under jute has increased by 400 per cent. Besides Bengal, jute is also grown in Bihar, Orissa and Assam. Among the States, Cooch-Bihar and Tripura grow jute. The area under jute (3·3 million acres) in various provinces in 1942-43 was as follows :—

		Million acres.
Bengal	...	2·7
Assam	...	·3
Bihar	...	·3

During the depression of 1929-35 the price of jute fell to unremunerative levels. To assist the recovery of prices, the Bengal Government announced a scheme, in 1934, for a voluntary restriction of 1935 crop. Propaganda in favour of the scheme was carried on for three successive seasons, but the results of this voluntary effort were not substantial. In August 1940, the Bengal Jute Regulation Act was passed to meet the situation arising out of the war. This was applied on a compulsory basis to the crops grown in the interest of growers, to control fluctuations of prices of raw jute.

The cultivation of jute is not an unmixed good. It has displaced rice in many tracts and has thus reduced the supply of food. Secondly, it exhausts the soil more rapidly than any other crop. Further there seems to be a connection between jute washing and malaria. And finally the danger of over-production is always there because it is difficult to estimate demand which is mainly foreign.

(vi) *Indigo*.—Due to the German discoveries of synthetic dyes in the closing years of the 19th century, India's export trade in indigo received a serious blow. The area under indigo was greatly reduced. In 1896-97, there were 1,688,901 acres under this crop, in 1913-14, there were only 172,600 acres. In 1939-40, only 37,500 acres were planted with indigo. This increased to 65,000 acres in 1940-41. The principal producing provinces are : Madras, United Provinces, Bihar, the Punjab and Bengal. The future prospects for this crop are not very bright unless cultivation and manufacture are made extremely cheap.

(vii) *Opium*.—Area under opium has also been declining, though for different reasons. This has been the result of Government policy to stop all exports to China, under the agreement of 1907, and to other countries under similar agreements made subsequently. In 1906-07, there were 614,879 acres under opium in British India. This figure fell to only 5,816 acres in 1940-41. The cultivation of poppy is carried on under a system of Government licences. The chief producing province is the United

Provinces (15,594 acres). There has been no export of opium on private account since the year 1935-36. Thus India has made large sacrifices of revenue to meet her international obligations.

(viii) *Tobacco*.—In 1940-41, the total area under tobacco in British India was 1·2 million acres. The chief producing provinces are Madras, Bengal, Orissa, Bombay, the United Provinces and the Punjab. Most of the production is consumed locally. In 1939-40, 57·6 million tons of tobacco were exported which were valued at Rs. 1·8 crores. As regards manufactured tobacco, India imports more than she exports. The Agricultural Research Institute has recently directed its attention to research with a view to improve the quality of tobacco. Heavy import duties are levied to stimulate the cultivation and consumption of Indian tobacco.

(ix) *Fodder Crops*.—In 1940-41, there were 10·5 million acres (compared with only 2·94 million acres in 1901-02) under fodder crops in India. These were distributed as follows :—

				Million acres
Punjab	...	...	...	5·2
Bombay	...	...	...	2·2
U P.	...	...	...	1·5
Others	...	...	...	1·6

But in view of the large cattle population, this area is not adequate.

In recent years the Agricultural Department has been paying much attention to the problem of growing better fodder crops and of storing fodder. Among other grasses Egyptian clover and berseem have been successfully introduced in the various provinces as fodder crops.

(x) *Cinchona*.—Cinchona is mainly grown on Government cinchona plantations in Darjeeling and the Nilgiris. Government plantations were started as early as 1862. Since the Japanese occupation of Malaya and the East Indies, the largest producers of quinine in the world, the supply of quinine has become a serious problem. Attempts are being made to plant more cinchona trees in India.

(xi) *Rubber*.—Rubber is mainly grown in Southern India—Madras, Coorg and Mysore State. In 1939-40, the total area under rubber was 134,000 acres, which yielded 31·39 million lbs. of rubber; the yield in 1940-41 was 35,530 lbs. Due to excessive fall in prices from June 1934 production and export had to be regulated under an international scheme. This considerably helped the market. In 1939-40, India imported rubber goods to the value of Rs. 148 lakhs. A serious shortage of rubber was caused for the

Allies after the occupation of Malaya, Burma and East Indies by Japan. Efforts were made to plant more rubber trees in India and also to find alternative sources of supplying rubber. Synthetic rubber was produced in the United States and the United Kingdom and in India a creeper plant was discovered, the milk of which could be used for the manufacture of rubber.

6. Necessity of Increasing Production : In order to improve the economic position of the Indian agriculturist, it is necessary that his earnings from agriculture and other available subsidiary occupations be increased. Attempts have been made from time to time to estimate the *per capita* income of an agriculturist in India. Towards the close of the last century it was estimated that the minimum average income for all India was about Rs. 30 per head per annum. More recently, however, estimates have shown a higher level of income. The Statistical Branch of the Department of Agriculture, Madras, calculated some years ago that the average annual income earned per head by agriculturists in the Presidency was about Rs. 100. Another estimate of Bombay put the figure at Rs. 100 for urban and Rs. 85 for rural areas.¹ The income fell considerably during the years of depression and must have increased substantially since the phenomenal rise in price during the last few years due to war. Whatever the validity of these estimates of income, the main fact remains that the vast majority of the rural population of India lives perpetually on the margin of subsistence. Every effort, therefore, towards raising this margin is urgently called for.

The income of the agriculturist can be raised

(a) By increasing the area under cultivation, as far as possible. In other words, by adopting the methods of extensive cultivation, and thus increasing productivity per man and not necessarily per acre.

(b) By increasing productivity per acre through utilizing the possibilities of intensive cultivation.

(c) (a) and (b) above concern merely the volume of production. Volume is important, especially as it enables the cultivator to feed himself and his family before he can even think of producing for the market. From the point of view of the market, however, volume alone is not enough. It is the sale price of the produce, that finds its way into the pockets of the cultivator, that becomes of great significance. This sale price partly depends upon the quality of the product offered for sale and partly on the agencies through which marketing is effected—leaving out of

(1) India in 1930-31, p. 156.

account the broad factors of supply and demand. The problem of marketing we shall discuss in a subsequent chapter. Here we shall be concerned, primarily, with the increase in the volume of production by extensive and intensive methods.

7. Need for Increased Food Production : To increase the volume of production of food crops is essential not only from the point of view of increasing the cultivator's income but also that of the amount of food available in the country for consumption of the agricultural and non-agricultural classes. At present India does not produce enough food for her population. At the outbreak of the present war India had already become an importer of foodgrains. It was the stoppage of the import of Burma rice, as we shall see in a later chapter, that caused the tragedy of Bengal in 1943. In 1938, Dr. Mukerjee estimated for India a food deficiency of 12 per cent in a year of normal harvests.

In India in a normal year the estimated¹ production of the principal food crops is as follows :—

Food crops.	Million tons.	Food crops.	Million tons
Cereals	60.0	Vegetables	9.0
Pulses	7.5	Milk	23.0
Fats and oil	1.9	Meat, fish and eggs	1.5
Fruits	6.0		

In order to give a balanced diet of minimum quantity to 400 million people of India, it has been estimated that the production of these foods must be increased as follows² :—

Cereals by 10 per cent ; Pulses by 20 per cent ; Fats and oil by 250 per cent ; Fruit by 50 per cent ; Vegetables by 100 per cent ; Milk by 300 per cent ; Fish and eggs by 300 per cent.

To make provision for the supply of animal food stuffs, necessary for the increased outturn of work and milk to achieve these targets, it is estimated that the present production of oil cakes and other concentrates should be increased by 400 per cent and fodder by 55 per cent.

Production, as we have said above, can be increased either by bringing more area under the plough, or by producing more from the existing area under cultivation or by both methods simultaneously. Let us see what scope is there for increase in production of food as well as non-food crops.

1. Memorandum on the Development of Agriculture by the Advisory Board, Imperial Council of Agricultural Research, p. 1.

2. Third, p. 2.

8. Possibilities of Extensive Cultivation : The table given below shows how the total area of India is being utilized and what changes have occurred in its distribution over a period of about 30 years ending with the year 1940-41.

	Million acres.		Change in 1940-41 over 1911-12		%
	1911-12	1938-39	1940-41	+ increase - decrease	
(a) Under Forests	61.9	63.2	68.3	+ 6.4	
(b) Not available for cultivation	104.3	91.8	87.7	- 16.6	
(c) Culturable waste	88.8	92.2	97.9	+ 9.1	
(d) Current fallow	49.7	48.3	45.3	- 4.4	
(e) Net sown with crops	202.6	209.4	214.0	+ 11.4	5.6
Total area	507.3	509.9	513.2	+ 5.0	1.1
(f) Irrigated area	39.7	53.7	55.8	+ 16.1	40.6

It will be seen that net area sown with crops increased less than 6 per cent during this period of 30 years. Even this increase was mainly due to development of irrigational facilities. Area under irrigation increased by over 40 per cent.

How far are there any possibilities of bringing more area under crops? Let us take each of the uses to which land is put as shown in the table.

(a) *Area under forests.*—During the period the area under forests has steadily, though only slightly, increased. Most of the increase had taken place by 1919-20 when it stood at 67.0 million acres. The figure varied slightly after that year round about 66 million acres.

There is no question of reducing the area under forests and putting it under crops even if it was possible. In fact our forest resources are not enough for the need of the country and the people. Efforts should be made to bring some of the land classed as "culturable waste" under forests. This will supply more grazing facility, fuel, timber and wood for implements for the peasantry apart from other economic benefits to the country.

(b) *The area classed as "Not Available for cultivation"* has steadily been reduced making a difference of 16½ million acres over a period of 30 years. The difference appears to be due to change in the standard of classification. Some of it might have contributed to the increase under "culturable waste." But it is very improbable that any substantial part of it could be brought under the plough.

(c) *Culturable waste* has increased during the period probably due to the reason given in the previous paragraph. The figure now probably would have been higher due to this change in classification had not some of this class of land been brought under cultivation with the extension of irrigational facilities.

(d) "*Current fallow*" has fluctuated from year to year without showing any definite tendency either towards increase or decrease. This is what might have been expected. But the significant fact is the high proportion of land kept fallow every year. This reflects the primitiveness of our agricultural methods. It is a *remanent* of days when leaving land fallow was the only method of recuperating its powers. With scientific manuring and proper rotation of crops this area could be saved from being wasted. In the Western countries fallow has been replaced by intertilled row crops like corn, potato and roots.

As regards the uncultivated waste, the following table shows the distribution of such land according to provinces:—

(a) Provinces	(b) Uncultivated waste other than fallow (million acres.)	(c) Definitely known to be cultivable out of (b) (million acres.)
Assam ...	17.6	
Bengal ...	6.0	0.14
Bihar ...	6.4	
Bombay ...	0.9	0.18
C.P. & Berar ...	14.0	5.15
Madras ...	11.3	
N.-W.F.P. ...	2.8	
Orissa ...	3.2	
Punjab ...	13.9	3.18
Sind ...	11.1	
U.P. ...	9.8	
Others ...	0.8	
Total Br. India	97.8	8.65

From the above statistics, especially column (b), it would seem that there is considerable scope for extensive cultivation in India, but in fact, as is shown by column (c), only about one-tenth of this area is definitely cultivable. The pressure of population on land is such that already almost all the land, which was worthwhile cultivating, has been brought under the plough. The areas left are either very inferior soils, or require expensive irrigation facilities before they can be cultivated.

According to Prof. K. T. Shah, the main reasons for cultivable land remaining at present uncultivated are:

(i) Lack of necessary capital for bringing such land under the plough, and providing it with the necessary water, drainage, cattle, etc., making such land economically cultivable.

(ii) Absence of cheap, adequate transport facilities for disposing of the produce of such land.

(iii) The deficiency in drinking water supply and other essentials of life which make it undesirable for the cultivator to occupy it.

(iv) The prevalence of disease carrying germs which render it unattractive for cultivation and habitation.

Professor Shah's remedy is: "Culturable waste land can only be effectively brought under cultivation, and its produce economically disposed of, if all the scattered parcels of culturable waste land are treated as public property and exploited or developed by the State as such."¹

Professor Shah has discussed the matter from the long-period point of view as a part of an all-India plan on socialistic lines. From the short-period viewpoint, the scope for further extension of cultivation by private individuals is extremely limited. If finances allow, however, a few millions of acres may be brought under cultivation by extension of irrigational facilities in the Punjab and Sind. In Assam the principal difficulty is scarcity of labour due to uncongenial conditions of life and work. If there was scope for extension, statistics would have disclosed a greater rate of increase in cultivated area than is shown by the following figures :—

BRITISH INDIA INCLUDING BURMA

Year.	Net area sown. Million acres.	Average annual increase over the previous date.
1892-93	195.91	+0.42
1901-02	199.71	+2.59
1910-11	223.06	+0.10
1921-22	223.18	+0.10
1930-31	229.12	+0.66
1934-35	226.98	-0.53

BRITISH INDIA EXCLUDING BURMA

1935-36	209.71	
1939-40	209.96	+0.06
1940-41	213.96	+4.00

It will be seen, that except during the first decade of the present century, when much new land was brought under cultiva-

¹ I. Shah, K.T., *Principles of Planning* (Padma Publication), p. 34.

tion due to the extension of canal irrigation, the annual increase in the cultivated areas has been very moderate indeed. The increase in 1940-41 over 1939-40 is presumably due to the "grow-more-food" campaign. But this increase in area has not been accompanied by a proportionate increase in production as we shall see presently.

More recently, in spite of the production under the stress of war, the area under cultivation of the important food and non-food crops has not shown any remarkable increase as the following table shows:

PERCENTAGE GROWTH OF AREA UNDER SOME
IMPORTANT CROPS ¹

Base: Average of 1936-37 to 1938-39

Crop	Average 1936-37 to 1938-39		1939-40 1940-41 1941-42 1942-43			
	Million acres	Base	Index	Index	Index	Index
Rice	... 72.8 =	100	102.0	100.3	101.2	102.8
Wheat	... 34.7 =	100	98.0	100.5	98.0	99.0
Groundnut	... 8.0 =	100	104.8	109.6	88.2	92.6
Rape and Mustard	... 5.5 =	100	107.2	108.8	111.5	61.7
Sesamum	... 4.2 =	100	95.9	95.4	95.9	97.7
Linseed	... 3.7 =	100	98.3	95.0	88.5	71.8
Sugarcane	... 3.8 =	100	95.7	120.8	92.3	94.3
Cotton	... 24.6 =	100	86.6	92.9	95.5	76.0
Jute	... 2.9 =	100	106.0	190.2	72.5	110.5

The great fall shown under linseed, rape and mustard and cotton has been due to the practical disappearance of the chief markets to which these articles were exported before the war. In spite of the "grow-more-food" drive and falling off in the area under the non-food crops, the only increase under foodgrains has been in the case of rice. That also is very moderate. More recent figures show better results as regards foodgrains. In 1943-44, compared with the average of three pre-war years, the area under all foodgrains was 6 per cent higher and production by 10 per cent higher. Production is a matter of intensive cultivation also. As regards area, this increase was at the expense of non-food crops like cotton and not due to any substantial increase in the new area brought under the plough.

1. Figures taken from "War and Indian Economic Policy" by Gadgil and Sovani, p. 62.

Regarding the possibilities of extensive cultivation we may conclude, therefore, that they are meagre as things are at present. The "fallow" could be eliminated by better rotation of crops and using other methods of recuperating land. This will involve a change in the character of our agricultural economy allowing more specialization of crops, so that different lands could be used for those crops for which they are best suited. This is not possible under the present subsistence farming, which compels the farmer to grow food on all kinds of soils. The culturable waste could be brought under the plough only if the State was willing and able to invest enormous capital in works of irrigation and other forms of reclamation. As long as these conditions are not present, we must rely on intensive rather than extensive methods of agriculture to increase the volume of production.

9. Scope for Intensive Cultivation : We have seen that the cultivated area per head of rural population in India comes to a little more than an acre and per head of total population it is about four-fifths of an acre. In Japan, the cultivated area per head of population comes to less than one-third of an acre. But productivity per acre in Japan is much higher than in India due to the application of intensive methods of cultivation. India has not even made a start in this direction. No wonder, that yield per acre in India is almost the lowest as compared with other countries of the world, whatever crop one might take. The following table makes this point clear :

COMPARATIVE YIELD IN LBS. PER ACRE OF CERTAIN CROPS.

	Wheat	Rice	Maize	Sugarcane	Cotton	Tobacco
Egypt ...	1,918	2,998	1,891	70,302	535	...
Germany ...	2,017	...	2,828	...	...	2,127
Italy ...	1,383	4,568	2,079	...	170	1,139
Japan ...	1,713	3,444	1,392	47,534	196	1,665
U.S. A. ...	812	2,185	1,579	43,270	268	882
Java ...	...	...	...	113,570	...	...
China ...	989	2,433	1,284	...	204	1,286
India ...	660	1,240	803	34,944	89	987

The case of Japan is very instructive for India. The conditions in that country are nearer to Indian conditions than in any other country. It is a country of small cultivators, who use very little of modern mechanical methods. The problem of irrigation, however, is not so difficult there as is the case in India. Japan demonstrates what can be done, even with meagre resources, by a peasant on a small area of land. The high yield per acre in countries like U.S.A., Canada and Australia is obtained by large-scale agriculture carried on over-holdings running into hundreds

of acres, by modern machines and scientific methods of cultivation. This high productivity is even more significant since it also implies high productivity per man that is more important from the point of view of the standard of living of the people concerned. High productivity per acre, obtained by the labour of a large number of persons, may co-exist, as in Japan, with acute poverty of the cultivators. But when the population lacks alternative avenues of employment, as in India, it is better to aim at high productivity per acre even though it involves a larger number of workers to be engaged. Saving of labour power can be economical only when more productive employments are available for the surplus labourers thus saved. The ideal position, however, in India would be that alternative sources of employment should be created for her surplus population, so that land per family depending on agriculture may be large enough to make up-to-date methods of cultivation possible. But so long as the pressure of population on land remains what it is, intensive methods of cultivation should be such as to involve less expenditure of land and capital and more utilization of the available labour power.

The great possibilities of intensive farming in India will be realized from the following quotation from a note by Sir MacDougall to the Central Banking Inquiry Committee. "If the output per acre in terms of wheat were raised to that of France" wrote Sir MacDougall "the wealth of the country would be raised by £ 669,000,000 a year. If the output were in terms of English production it would be raised by £ 1,000,000,000. In terms of Danish wheat production, the increased wealth to India would be £ 1,500,000,000 per year."²

The yield is not only low but there are wide variations in India itself. For instance in 1940-41 yield of rice per acre varied from over 1,000 lbs. in Madras to just over 500 lbs. in Bihar; of wheat from 821 lbs. in Bihar to 385 lbs. in Bombay; and sugarcane from 6,706 lbs. in Madras to 1,918 lbs. in the Punjab and cotton from 182 lbs. in the Punjab to only 50 lbs. in Orissa.

These differences may be accounted for partly by different fertility of the soil, rainfall and other natural factors. But to a large extent they can be attributed to low standard of cultivation in backward regions.

10. Causes of Low Yield: The best way to discover remedies for low yield is to find out the various causes that

1. League of Nations; *Statistical Year Book*, 1933-34. Tables 19-47.

2. Report, Central Banking Inquiry Committee, App. 701.

underlie this state of affairs in India. The causes of low yield are the same as the causes of backwardness of Indian agriculture and anything that leads to agricultural improvement will automatically lead to higher productivity per man as well as per acre. Broadly speaking, anything that handicaps the cultivator in the proper exploitation of his land is responsible, to a smaller or a larger extent, for the low productivity of Indian agriculture.

The main causes of low yield in India are :—

(a) Sub-division and fragmentation of holdings which are a serious limitation on improved methods of agriculture.

(b) Inferior seed, careless cultivation, primitive implements, inadequate manuring and inadequate irrigation, unseasonable rainfall.

(c) Defective physical and chemical properties of the soil.

(d) Due to pressure of population on land, inferior lands have been brought under cultivation which have reduced the average production per acre.

(e) Poverty, ill-health, ignorance and conservatism of the peasant.

(f) Defective systems of land tenure which do not give enough incentive for better cultivation.

(g) Damage caused to crops by man, beast, diseases and pests.

11. Remedies against Low Yield : It would appear from the above list that the investigation of the causes of low productivity of our agriculture involves the study of all the various aspects of the Indian agricultural economy. Each of these subjects will claim our attention in the following chapters of this book. We shall discuss the problems of Holdings, Land Tenures, Methods of Cultivation and Equipment, Irrigation and Famines. The various kinds of soils found in India have already received our attention, and the problem of soil improvement will receive our attention later. Here we may give, in a general way, the remedies against low yield usually suggested by experts on the subject. Generally speaking, yield per acre may be improved in the following ways :—

(i) Better rotation of crops.

(ii) Greater specialization of cropping according to the qualities of the soils in different localities.

(iii) Sowing of improved and selected seed.

- (iv) Better nutrition of the plant. This involves better manuring, better cultivation, regular and sufficient water supply.
- (v) Reduction in the damage caused by man and beast, diseases and pests.

As regards the rotation of crops unless the size of his holding is considerably enlarged, the Indian peasant has very little to learn from the expert. The accumulated experience of ages has taught him what crops should follow what crops to give best results.

Too much specialization of cropping in distant localities is not desirable, since a variety of crops grown by the same village, even by the same cultivator, serves as an insurance against price changes and unfavourable seasons. Reasonable specialization in the case of certain staples like cotton, wheat and oilseeds, however, can improve the yield if intelligently planned by some central authority.

As regards selection and improvement of seed, the efforts of the Departments of agriculture, provincial and central, have achieved very striking results in this connection. Improved varieties of wheat, cotton, sugarcane, etc., have considerably increased productivity per acre where they are sown. There are further possibilities in this connection.

Better nutrition of plants involves better methods of cultivation, conservation and application of necessary quantities of manure and proper irrigational facilities, where rainfall is not adequate. Much has been done in this connection too, though much still remains to be done. Canal irrigation has been extended, the Agricultural, Co-operative and Rural Reconstruction Departments have been drawing the attention of the cultivator towards the importance of conserving the manure that he wastes and burns. Lack of fuel facilities have, however, stood in the way. Better implements, suited to the small pocket and the small holding of the cultivator, have been evolved by the Agricultural Departments, though they have not been widely used due to the conservatism, but essentially due to the lack of capital resources, of the average peasant. Utilization of the co-operative principle in this connection can work wonders.

Finally, the problem of fencing against man and beast can be simplified; like so many other problems connected with cultivation, by consolidation of holdings. The movement towards consolidation should be accelerated by propaganda, persuasion

and where necessary by the force of law. As regards pests and diseases, the Agricultural Departments have done useful work in the investigation of the nature of such diseases and in suggesting methods of their control. These ideas require greater propagation. But before any of these remedies can give maximum results, a programme of general and agricultural education of a set minimum standard must make the peasant classes ready for receiving the new ideas. In the meantime, however, all efforts at improvement should continue.

12. Estimated Possibility of Improvement in Yield: An expert for the Government of India has recently investigated the possibilities of increasing production per acre of some important crops. Some of his findings are given below.

Rice.—Outturn of rice per acre can be increased by 30 per cent, even by 50 per cent, by using better varieties of seed, by application of manure and protection from pests and diseases. The present yield is about 740 lbs. per acre.

Wheat.—The last ten years' average yield of wheat is 640 lbs. per acre. It should be possible to bring it up to 1,200 lbs. per acre in the case of irrigated wheat with better seed and manure and control of diseases.

Jowar.—An improvement of 20 per cent is possible. The present yield on irrigated lands is 1,200 to 1,500 lbs. and on *barani* lands it is 100-700 lbs. per acre.

Bajra.—The all-India average is about 320 lbs. per acre. This could be increased by 25 per cent, by adopting dry farming methods, *i.e.*, to 400 lbs. per acre.

Maize.—The present yield of 800 lbs. per acre could be increased to 1,000 lbs. per acre, *i.e.*, by 25 per cent. In U.S.A. an increase of 35 per cent has been made by adopting the method of "Hybrid Vigour."

Gram.—Provided disease resistant varieties are found, the yield can be raised from an average of 500 lbs. per acre to 600 lbs. per acre.

Pulses.—Little experimental work has been done so far. There is need for experimentation.

Sugarcane.—Already over 75 per cent of the acre under sugarcane is sown under improved varieties. The average, however, is only 15 tons per acre. This could easily be doubled.

Cotton.—The all-India 30 years average yield is about 90 lbs. per acre. Though he gives no target figure, Dr. Burns thinks that yield can be increased with improved varieties, manuring, etc. The problem is of producing more of long staple and less of short staple varieties.

Jute.—The present average of about 16 maunds per acre could be improved to 20 maunds by growing improved varieties and using manure.

Fibres.—Apart from Jute and Cotton, other fibres are sann-hemp, Deccan hemp, Coir and agaves. These have received little attention so far. Considerable improvement in quality of sann-hemp is possible by improving the method of setting. A fibre research station is necessary to study the agricultural, commercial and technical possibilities of fibres.

Fruit.—Statistics of the area and yield are not available but there are enormous possibilities provided India's fruit products can compete with foreign products and quality of fresh fruit put on the market is improved.

Potatoes.—Production can be doubled on the existing acreage provided fungal diseases are eliminated and improved methods of storage adopted.

Thus it would appear that, even under the present conditions, productivity per acre can be increased roughly by one-fifth by the use of better varieties of seed, more adequate manuring and protection from pests and diseases. Possibilities are much greater, however, if our agricultural economy is more fundamentally changed.

CHAPTER IV

SYSTEMS OF LAND TENURE

1. Introduction : In the last chapter we studied the distribution of cultivated area and the relative importance and nature of crops grown on that area. Before we pass on to the consideration of the character of agricultural holdings and the equipment available to the cultivator for the exploitation of his holding—the subject of our next chapter—it is necessary to have some idea of the legal position of the cultivator with respect to the land that he cultivates. This is the subject of Land Tenure. We have to see in this chapter whether the cultivator has any rights in the land he cultivates—e.g., rights of ownership, transfer by sale or mortgage, etc.—and if he has any rights recognized by law or custom, the degree and scope of such rights.

The importance of the study of Land Tenure is two-fold: Firstly it is necessary from the point of view of the state, to locate the ownership of a particular piece of land, because it is the owner from whom the state has to claim the land revenue for that land. Secondly, the repercussions of the system of land tenure are very far-reaching on the productivity of land and the general agricultural progress, apart from its political repercussions. For instance, an owner cultivator will exploit his land with much greater zeal and will be much more anxious to introduce permanent improvements into it, than a tenant who has to share the fruit of his labour with a landlord. For agricultural advancement of a country, for social peace and contentment, therefore, a just and stable system of land tenure is a very necessary condition. The best system is one which, on the one hand, encourages the greatest production of wealth from the soil, and, on the other, ensures the welfare of those who work on it.

2. Main Types of Land Tenure : A cultivator may stand in legal relationship to his land in any of the following capacities :—

(i) He may work as a tenant to the state. The ownership of land may vest in the state and the cultivator may have direct relationship with the state paying the latter a specified rent. The state can, in this case, legitimately claim as revenue from land an amount up to the maximum indicated by the true economic rent of the land—the true surplus over cost of production including

wages and normal profits of the cultivator. Such a system is called *State Landlordism*. This system is the aim of the various forms of socialism, though it may partially exist in capitalistic societies as well.

(ii) The cultivator may himself possess rights of ownership in the land. These rights may be of varying degrees. The ownership may be absolute—of course conditional on the payment of the revenue claimed by the state—or it may be relative, exercised under limitations imposed by law or custom in the interests of some other parties. The right of ownership, however, may be regarded as complete for all practical purposes if the owner can sell, mortgage, pass on to his descendants, etc., the landed property concerned. When a cultivator himself, along with his family, cultivates his land—usually quite a small holding—the system is called *Peasant Proprietorship*. A peasant proprietor pays no rent to anyone for his holding, but has to pay the land revenue claimed by the state. This system, on account of the various advantages that it possesses, is regarded by some as the best system of land tenure. “The magic of private property,” said the famous English traveller of the 18th century, Arthur Young, “turns sand into gold.” The system breeds an independent, self-reliant and contented peasantry. The system is common in the Punjab but is handicapped by too small and fragmented holdings as we shall see later.

(iii) The cultivator may be a tenant—not of the state but of a *private landlord*. There is a large variety of tenures under this system, depending on the nature of the landlord's and of the tenants' rights in land. Thus :—

(a) The landlord may have *full proprietary rights* in the land paying land revenue to the state fixed by Permanent or Temporary Settlement.

(b) The landlord may be a mere *rent receiver* whose rent is fixed by custom or law and cannot be changed except according to definite conditions laid down.

(c) The tenant on the other hand may be an *occupancy tenant* who cannot be ejected from his holding as long as he pays the rent which is also fixed and cannot be increased except under given conditions. The general trend of tenancy legislation in India is towards conferring occupancy rights on tenants—“fixity of tenure, fair rents, and freedom of transfer” is the general slogan.

(d) The tenant may be a *tenant-at-will*. In its worst form this system implies that the landlord can eject the tenant whenever he likes and can charge from him as much rent as he may be able to squeeze out. This leads to a floating tenant population and rack renting, especially where demand for land is acute, as in India, due to the lack of alternative employment for the rural population.

(e) The cultivator may be a *sub-tenant* or the tenant of a tenant. This happens when the tenant sub-lets his land and in the worst cases does not cultivate it himself but lives on the difference between the rent he pays to his landlord and that he charges from his sub-tenant. The sub-tenant may again sub-let a part or the whole of the land and the process may continue indefinitely. Thus sometimes the number of intermediaries between the actual cultivator and the proprietor becomes very large. "In one estate in Bakarganj" wrote the Bengal Banking Enquiry Committee, "there are as many as thirty intermediate (between the proprietor and the cultivator) tenures one under another."¹ This process of *sub-infeudation*, as it is called, is mostly found in Bengal and other permanently settled areas, where the small demand of the state has left a large margin of the economic rent to be divided among a large variety of parasites. Such a system is the worst from the point of view of agricultural progress, and recent tenancy legislation aims at discouraging such tenures. When the landlord becomes a mere rent receiver—Absentee Landlordism—and the tenant has no stake in the land, agriculture deteriorates and the cultivating population degenerates into agricultural labourers with no interest in the land they cultivate. Such situation is full of potentialities for political upheavals and in the interest of economic progress and political stability must never be allowed to exist. The best system of land tenure is the one in which there are no intermediaries between the State and the actual cultivator of land.

Baden Powell, one of the authorities on this subject, gives in the following table² the various interests that may intervene between the cultivator and the Government :—

1. Report, para. 17.

2. *Land Revenue and Tenure in British India*, p. 129.

One interest	Two interests	Three interests	Four interests
1. The Government is the sole proprietor, i.e., State Landlordism.	1. The Government. 2. The ryot or occupant with a defined title (not a tenant) as in Madras, Bombay, Berar, i.e., Ryotwari system, etc.	1. The Government. 2. A landlord (Zemindar, talukdar, or a joint village body regarded as a whole). 3. The actual cultivating holders, individual co-shares, etc., i.e., Zemindari system.	1. The Government. 2. Landlord Sub-proprietor, or tenure holders. 3. The ryot or actual cultivators. 1. The Government. 2. An overlord. 3. An actual proprietor or landlord usually a village body. 4. The actual cultivating holders, individual co-sharers, etc., i.e., Mahalwari system.

The main types of land tenures thus may be classified as: (i) State Landlordism; (ii) Zemindari; (iii) Mahalwari; and (iv) Zemindari.

We shall now examine each of these land tenures and study the various problems that each gives rise to along with the remedies proposed or actually applied in the various provinces.

3. State Landlordism: Attention may be first drawn to the theory of state ownership of land, as applied to India, which was a subject of considerable controversy for a long time until quite recently. Though a few authorities may still believe in it, in general the theory now stands rejected, though the full implications of this rejection will not be realized until the land revenue is levied according to the principles of taxation. The subject is not merely of a theoretical interest. Whether the land revenue is to be regarded as a rent or a tax, depends upon the view that we might take of the relationship of the state to the land. If the state is the owner of land, then like any other landlord it is entitled to the full economic rent of that land. If, however, the state is not the owner, then it can only tax land or income from land as it taxes incomes from any other form of property. Justice in that case will demand that the land tax should be levied according to the same principles as the tax on income derived from any other source. In that case, small land holders will be exempted from land revenue just as small earners of incomes are exempted from income tax. Moreover, the land revenue will increase progressively for bigger holders as income tax rates increase for larger incomes. The position at present is that though the state does not¹ claim ownership to land, land revenue is not imposed according to the principles of taxation on account of practical considerations of finance. The fall in the

1. With a few exceptions where such ownership does exist.

revenue will be so serious, it is said, as to impair most of the beneficent activities of the state, activities which are ultimately for the good of the land owners themselves. We shall again come to this subject in our chapter on land revenue. Here we may note the various arguments brought for and against the theory of state landlordism.

In favour of the theory it is claimed that land is a free gift of nature and not the result of the efforts of any particular person. Hence its ownership vests in the community and is exercised through the state or the ruler. The state is entitled to the whole of the economic rent of the land, because this economic rent is "an unearned" income over and above the contributions made by labour, capital and organizing ability of the cultivator. Therefore, it is asserted, the rulers in the East and also in India have always claimed a share in the produce of land as owners of such land.

To this the reply is made as follows: (a) Ricardian theory of rent which regards economic rent as "unearned" income is only true under conditions prevailing in England of Ricardo's time and is not a full explanation of the earnings from land. Land, like any other factor of production, gives a surplus over cost under certain conditions—when its demand is greater than supply. *Earnings of land is essentially similar to earnings of any other factor of production in spite of certain peculiarities of land as such.* Land possesses value because it can be put to more than one uses, and if it is put to one particular use some other has to forego service from such land. This represents the cost of land to the community and the payment made to attract land for one use rather than another does enter into the cost of production of the goods produced from it. From this point of view economic rent is as much earned as payment received by the owners of any other factor of production.

(b) Moreover, *all land does not earn economic rent.* An uneconomic holding, for instance, may give even less returns than the legitimate rewards of the labour and capital used on it. No surplus is there to be paid to the state even if the latter is recognized as the owner of such land. The first charge on cultivated land is the reward for the efforts of those who work on it, irrespective of the fact whether some of them have to do nothing because of the lack of alternative employments in the country for the rural classes. The lack of alternative employments is the fault of the social structure and not of the cultivators and their dependents.

(c) *It is untrue to say that rulers in India have always claimed ownership in land.* They have claimed a part of the produce of the land, but this they have done in the capacity of a taxing authority, not as owners. Some oppressive local chiefs might have made and exercised claims of ownership, but such claims were tyrannical and had no basis in law. Similarly, during the chaotic period between the death of Aurangzeb and the consolidation of the British power all sorts of claimants arose to proprietorship of land—some of these were recognized by the British Government for convenience of revenue collection—and in this way actual cultivators lost their ownership. In some cases claims were also made on behalf of certain ruling chiefs when the cultivators or other actual owners were not in a position to defend their rights. But such claims had no legal basis unless recognized by the supreme authority when established.

(d) *The British Government, since its consolidation in India, has never put forth any general claim for universal ownership of land,* nor did the Hindu and the Muslim kings ever claim such rights as the Taxation Enquiry Committee¹ of 1922 established with full evidence. Thus the British Government neither succeeded to any claim of over-lordship nor did it assert any such claim. In fact the British have been denying such claims and have been encouraging claims of private landlords regarding the ownership of the land under their control. In a despatch to the Secretary of State, dated 8th June, 1880, Lord Lytton's Government observed: "We do not accept the accuracy of the description that the tenure (of land in India) was that of cultivating tenants with the power to mortgage the land of the state and that land is the property of Government held by the occupant as tenant in hereditary succession so long as he pays the demand. On the contrary the sale and mortgage of land was recognized under the native government before the establishment of British power. . . It has been one of the great objects of all the successive governments of India since the days of Lord Cornwallis, if not to create property in land, at all events to secure and fortify and develop it to the utmost. The Government undoubtedly is the owner of a first charge the amount of which is fixed by itself on the produce of all revenue-paying land in India; but over the greatest part of the Indian Empire it is no more the owner of cultivated land than the owner of a rent charge in England is the owner of the land upon which it is charged. If the charge is fixed so high as to leave nothing for the cultivator, such a maintenance as will keep him from deserting the land, it may of

1. Indian Taxation Enquiry Committee Report. Paras. 79-83.

course be said either that property in land does not exist, or that it is worthless."

Finally, we may record Baden Powell's conclusion on this subject. Looking at the matter from the practical point of view he writes: "The British Government has everywhere conferred or recognized a private right in land, and in large areas of country—Bengal, Oudh, and the whole of Northern India, for example—it has expressly declared the proprietary rights of the landlord and the village owners. It is then impossible to say broadly that the state takes a rent from the landholders regarded as tenants. The Government is certainly not owner. . . . The utmost it does is to regard the land as hypothecated to itself as security, in the last resort for the land revenue assessed upon it." His final conclusion is: "The land revenue cannot, then, be regarded as a rent, not even in the raiyatwari lands."¹

It should be remembered, however, that our denying the theory of universal state landlordism in India does not imply that the state owns no lands in this country. On the contrary, ownership of the state does exist in certain lands. For instance, the Government has full proprietary rights on waste lands and over the "khasmahal" estates such as are found in Bengal and Madras which are under the direct management of Government. Similarly, in the canal colonies of the Punjab some lands are owned by the Crown and the cultivators are Crown tenants paying rent to the state. In other words, in this country state ownership is the exception while private ownership is the rule.

In the second place even if we may be able to establish that most of the land in India is privately owned, it does not mean that we take it as a final dispensation. If private ownership of land leads to deterioration of such land and the people cultivating it, or it perpetuates social injustice, there is every justification to change the present system for a better alternative. This point we shall discuss at the end of this chapter. Let us here continue our discussion of the other existing systems of land tenure.

4. Ryotwari Tenure : In the Madras Administration Report for 1855-56 the Ryotwari system is explained as follows: "Under the ryotwari system every registered holder of land is recognized as its proprietor and pays direct to Government. He is at liberty to sub-let his property, or to transfer it by gift, sale or mortgage. He cannot be ejected by Government so long as he pays the fixed assessment and has the option annually of increasing or diminishing his holding or of entirely abandoning it."

1. Baden Powell, *Land Systems of British India*, Vol. I, p. 235.

The Bombay system is also ryotwari. In the Punjab colonies also the system of tenure is similar to the ryotwari tenure. "In the great canal colonies," says Calvert "every single grantee or purchaser holds directly and individually under the state, from which he has derived his rights, and each is bound by his separate agreement to pay land revenue. This approaches to the ryotwari system of Bombay and Madras, except that the areas here are larger, as in those provinces each separate plot is held in separate agreement direct from the state and the holder may reject any of his plots if he does not consider it worth the revenue assessed upon it."¹

Some writers think that under the ryotwari system the state is the landlord. This is for three reasons: (a) the state can resume the land if the cultivator does not pay the land revenue; (b) the waste land belongs to the state; (c) the cultivator has the option of leaving the land if he thinks that it is not worthwhile cultivating in return for the revenue assessed.

To this may be replied as given below:

(a) Ownership is nowhere absolute. In fact all property held by a citizen is held conditionally on the payment of the tax due on it. The state can resume any land if the demand of the state on it is not paid.

(b) The waste land may belong to the state, but this does not serve as an argument for the state ownership of the cultivated area. The proprietary rights have been conferred in the case of the latter and not in the case of the former, until it is also brought under cultivation. Under the Punjab Mahalwari system, however, the proprietary rights in the common waste of the village vest in the village proprietors collectively until it is partitioned. This is, however, merely a historical accident.

"The Government in Madras was inclined," says Kale, "to recognize such village communities (as in the Punjab) as they found in existence there, though the ties which bound the proprietors of land were not like those in Northern India, ties of blood and common ancestry, supposed or real, but ties of a long residence in the locality and of common interest. But the village community there was not recognized and was broken up when the ryotwari system was introduced in the Madras Presidency."²

(c) That the cultivator was given the option to leave the land if he thought it not worthwhile the revenue assessed, also

1. Calvert, *Wealth and Welfare of the Punjab*, p. 170.

2. Kale, *Indian Economics*, Vol. II, pp. 780-81.

does not prove that the state regarded itself as landlord. This option was given not to preserve any proprietary right of the state, but in order to induce the cultivator to undertake the cultivation of land at a time when proprietary rights in land were not much valued. It was to assure the cultivator that he was not going to be forced to cultivate the land, that it was his free will whether to cultivate or not.

We conclude therefore with Kale, that the so-called "occupant" of "Government land" in Bombay (and Madras) "is as much a proprietor of his land as his brother, the zemindar of Bengal, the only difference being, that, in the case of the latter, the land tax is perpetually fixed, whereas, in the case of the former, it is liable to periodical enhancement."¹ The view of the Taxation Enquiry Committee, however, was that though both the zemindar and the ryot were in possession of proprietary rights, subject to the payment of land revenue, in the case of the ryot it was not possible to arrive at an exact definition of the position of the landholder.² But even this conclusion does not invalidate the position that under the ryotwari system the ryot in Madras or "occupant" in Bombay possesses proprietary rights.

5. The Mahalwari Tenure : Under the Mahalwari (or Joint Village Community) system of land tenure the land is held jointly by co-sharing bodies of village communities, the members of which are treated as jointly and severally liable for the land revenue. The most typical of such tenures is found in the old districts (outside canal colonies) of the Punjab. "In the old settled districts of the North, Centre and East," says Calvert, "the soil, but not always the minerals beneath it, is held in full proprietary right, subject to the payment of revenue, by the village community in common. The state is supreme landlord and retains important rights of resumption for public purposes; or for serious crime or for failure to pay the revenue, or for refusal to accept the new demand for settlement, but these are so rarely used that the full rights of the village community are seldom disturbed and the rights of the state are apt to give way to the duties and responsibilities of a great landlord." He adds a little further : "If any owner abandons his land, it would be taken over by the proprietary body. Both in law and in practice the rights of the village community are carefully preserved ; they are the owners of all the village "common" or *shamilat*, with its trees, grass, etc., and they own the site of the village buildings."³

1. Kale, *Indian Economics*, Vol. II, p. 781.

2. Taxation Enquiry Committee Report, Para. 83.

3. *Wealth and Welfare of the Punjab*, pp. 169-70.

Land in the joint villages may be shared in a variety of ways. Three kinds of villages may be noted :

(i) Ancestral villages, where the owners descend from the same ancestor. The share of each heir depends on his position on the geneological tree. These villages again may be of three types :

(a) Villages where land is not divided but is held jointly like the property of a joint Hindu family.

(b) Those in which division takes place according to the ancestral share system (*pattidari*).

(c) Those in which division is partial, though on the ancestral system (imperfect *pattidari*).

(ii) Non-ancestral villages in which sharing takes place under the customary systems or "*bhaichara*" principles. This sharing may take place according to a variety of ways—sharing in equal lots ; sharing according to the number of ploughs owned ; sharing according to share in water or in wells. The land, however, is still regarded as jointly owned.

(iii) Villages in which existing holdings are recognized as they are and there are no definite rules for sharing.

The rules of sharing in each case have arisen according to the ways in which these joint villages originated. These villages were formed in one of the following three ways :—

(i) Ancestral villages were formed by the descendants of a common ancestor. This ancestor may have been a founder, a grantee, a revenue farmer or a ruling chief reduced to the position of a landlord as in the United Provinces.

(ii) The owners may have originally belonged to an immigrating or conquering class which allotted land according to their customary methods.

(iii) The owners may have been a group of people who colonized the place and established cultivation on the joint stock principle.

In a typical joint village the owners are themselves the cultivators—peasant proprietorship. In some cases, however, land may be cultivated by tenants who pay rent to the owners either in cash or in kind (*batai* system). In some cases a comparatively large owner gives a part of his land to tenants to cultivate and work the rest himself, in others a small holder supplements his holding by getting some land on rent. The best results from the point of view of good cultivation are obtained, however, when a

peasant proprietor possesses just enough land which he can economically cultivate and cultivates it himself with the help of his family and perhaps a few hired labourers. Some people regard such a system as the ideal system under the conditions as they obtain today in India. The system of peasant proprietorship is the dominant system in the Punjab, though the holdings are not as large as one would like them to be.

In the case of some joint villages (e.g., in Agra and Oudh) certain over-lords have arisen (talukdars) and original proprietary rights have degenerated into sub-proprietary rights or tenant rights. This brings us to the next system of land tenure—the zemindari system.

6. Zemindari Tenure : Under this system one or a few persons own a village or a collection of villages and are responsible for the payment of its revenue on the whole estate. Such villages are typical in Bengal, they also exist in Oudh and Agra, where they have talukdars, but they are exceptional in the Punjab. The Malguzars of Central Provinces are not landlords in the Bengal sense. A variety of landlord estates are also found in Bombay. In Madras also there are several great zemindars of Bengal type.

The proprietary rights of the zemindars developed in the course of history due to several circumstances. Originally, lands belonged to those persons who or whose ancestors had cleared them by cutting the jungle or otherwise had reclaimed them. The rulers (except in the case of Inam and Jagir lands, etc.) levied a tax on such lands. During the period of political insecurity, unsettlement, foreign invasions and immigrations the original proprietors were dispossessed by the stronger immigrants or conquerors and were reduced to the status of tenants. In some cases these conquerors were in their turn expropriated by new waves of stronger elements. Many of the present landlords were revenue farmers and others were princes reduced to the status of landlords by foreign conquest. The proprietary rights of all these were later recognized by the Government in turn for revenue payment.

As a rule the owners of these big estates do not cultivate them themselves. They are cultivated by tenants of various kinds. But between the tenant cultivator and the landlord, who is responsible for the payment of revenue to the Government, are found in some cases what may be called the sub-proprietors, or those who have sub-proprietary rights. These are called by various names :—

(i) *Tenure-holders of Bengal*.—They possess the privileged status of “permanent heritable and transferable tenure held at fixed payment.” The Act of 1885 recognized all those as tenure-holders who were below the zemindars and owned one hundred bighas of land.

(ii) *Pattidars*.—They are also found in Bengal. They were the people who were given permanent managing lease for a part of the estate by the zemindars who found their estates too big to bear alone the responsibility of revenue payment. Pattidars in their turn created tenants called *dirpattidars* who had similar privileges and shared parallel revenue responsibilities. The Bengal Regulation of 1819 recognized such sub-proprietary rights.

(iii) *Malguzars* were artificially created in the Central Provinces in order to fix the revenue responsibility on one person on the lines of the policy followed in Upper India. This necessitated the recognition of sub-proprietary rights for the earlier proprietary landlord body.

(iv) In Oudh in some cases the village proprietors were able to preserve their independent management, subject to the payment of rent to the over-lord talukdars. Their sub-proprietary rights have also been recognized by separate settlement which fixes the rent payable to the talukdar, who in their turn pay the revenue to the Government in accordance with the main settlement.

The sub-proprietors may themselves be cultivators or they may have tenants to cultivate their lands.

7. Tenancy Legislation : Tenancy legislation in India has been aiming at securing certain rights to the tenant class. It would be more convenient to discuss the problem of tenancy legislation according to provinces, since conditions have differed in various provinces and the problem has been tackled accordingly.

(i) *Bengal*.—By the Permanent Settlement of 1793 the land revenue was fixed sufficiently high (9/10 of the rental) and was to be collected strictly by the zemindar. Though it was intended by Lord Cornwallis that the rights of the tenant (who was in many cases the original proprietor) would be secured but it was not done until the middle of the 19th century. It was in the year 1859 that the first Indian Tenancy Law was passed in Bengal—the Rent Act of 1859. This was later amended by the Tenancy Act of 1885. “The Act provides that every ryot who had held any land in a village for twelve years, acquires thereby a right. A

der are without right of occupancy. Even the latter, however, cannot be ejected except in execution of the decree of a competent court, nor can their rents be enhanced at shorter intervals than five years. The Act was amended by Bengal Act I of 1907, with the object of giving greater facilities to landlords for the collection of rent and at the same time of guarding against enhancement of rent by collusive compromises, and removing the ambiguities, anomalies and defects brought to light by twenty years' experience of the working of the Act."¹

In 1928, another Tenancy Act was passed, according to which holdings could be transferred by the tenant subject to the payment of a fee, and the landlord was given the right of pre-emption. The Act further "strengthened the right of under-ryots and divided them into three classes entitled to different degrees of protection."

More recently the Bengal Tenancy Act of 1938 was passed on April 1 of that year. It caused considerable controversy and evoked strong protests from the zemindars who claimed that it altered the character of permanent settlement. It abolished illegal exactions and cesses charged by the landlord from the tenant; gave the tenant right to recover his diluvial land within 20 years on payment of four years' rent, conferred same rights on the under-ryot, so far only enjoyed by the occupancy tenants and reduced the rate of interest payable on arrears of rent to 6½ per cent.

(ii) *United Provinces*.—The Bengal Act of 1859 was also extended to Agra and gave right of occupancy to all tenants who had occupied their land continuously for 12 years. The Agra Tenancy Act of 1901 provided that a change of holding or dispossession for less than a year should not operate as a break in this period. The Act also provided that a lease, unless its period was at least seven years, could not prevent occupancy rights from accruing. This was to encourage long leases even when the landlords did not want tenants to acquire occupancy rights. As regards non-occupancy tenants, their rights have also been protected. If their rents were enhanced they could hold land on those rents for at least five years. The Act of 1901 was amended in 1926 with the result that non-occupancy tenants obtained life tenure and in return the landlords got extension of their *sir* rights.

Under the Congress Ministry, the United Provinces Tenancy Act was passed by the Legislature in October, 1939, and received

1. Moral and Material Progress Report, 1913.

the Governor's assent in December of the same year. This Act followed the lines of recommendations of a committee appointed earlier to investigate the problem of land tenure in the province. The main provisions of the Act were as follows : (a) It conferred hereditary rights on all, but a few, of such tenants as were not enjoying occupancy rights before. (b) It restricted the grant of *sir* rights to small holders and limited the area (to 50 acres) in the case of large holders. (c) The Act put restrictions on the increase of rents. The prevailing rates of rent were to be reduced within five years to the level of those existing between 1895 and 1905. Once fixed the rents were not to be revised for a period of 20 years. (d) The Act also provided for remission or suspension of rents during periods of natural or economic calamity. (e) Ejectments were allowed only in the case of prolonged default and the rate of interest on arrears was reduced to 6½ per cent.

The Act met with great opposition from the landlords.

(iii) *Central Provinces*.—Even before the passage of the Central Provinces Tenancy Bill of 1939 by the Congress Ministry, the position of the tenants in that province was much stronger than elsewhere. The Government determined at each settlement not only the amount of land revenue but also the rent that the landlord had to receive from his tenants. The rights of "absolute occupancy" was heritable and transferable (with pre-emption on the part of the landlord) and included fixity of rent for the term of the settlement. The rent of the tenants-at-will could be enhanced by a revenue officer but at an interval of not less than ten years. The Act of 1939 among other things sought to confer on all occupancy tenants the right to transfer their holding.

(iv) *Punjab*.—In the Punjab in 1936-37 only 42 per cent of the land was cultivated by peasant proprietors. Of the rest 8 per cent was held by occupancy tenants and 50 per cent by the tenants-at-will. Rights of occupancy are recognized on historical grounds. The Punjab Act of 1887 defines occupancy tenants as "those who, for two generations, have paid neither rent nor services to the proprietor, but only their share of Government assessment."

The occupancy tenant in the Punjab enjoys extensive rights. He can hold land permanently so long he pays the rent fixed by authority. He can pass this land on to his descendants on the same terms. In fact he is more than a mere permanent tenant.

owner. In practice the only difference between him and the owner is that he has to pay a small sum to the latter who is theoretically responsible for the payment of Land Revenue to the State.

As regards tenants-at-will, recent village surveys show that the area under tenancy is increasing. In 1891-92, about 36 per cent of the total cultivated area of the province was worked by tenants-at-will. By 1936-37 this percentage had risen to 49. Increase in tenancy has depressed the standard of living of tenants. There is also a marked tendency towards the substitution of "batai" rents for cash rents. The latter is attributed to greater security of agriculture due to extension of irrigation, combined with pressure on land. Under such conditions, it is to the advantage of the landlord to demand payment in kind (one half of gross produce) and the tenant has no alternative but to agree. *Batai* rents, however, are very hard on the tenant. It has been calculated that while cash rents in England form about 20 per cent of the gross produce, *batai* rent in the Punjab comes to about 45 per cent. "The latter is a rack rent," says Calvert, "as on the whole the demand for land from tenants is greater than the demand by landlords for tenants."¹ "Under the *batai* system," says another authority, "which is largely in vogue in the Punjab, the produce rent which the tenant pays often trenches upon his standard of living."²

The tenants-at-will in the Punjab enjoy no legal protection against enhancement of rent and ejection. "The extension of the period of tenancy beyond eight years," according to Dr. Mukerjee, "is quite rare, and, generally speaking, those tenants-at-will who cultivate small areas are replaced at quick intervals."³ "The Tenancy Act allows a tenant-at-will to make an improvement with the assent of his landlord," says Calvert, "if he can prove this assent he cannot be ejected, and his rent cannot be enhanced until he has received compensation for his improvement. But local conditions make it very difficult to prove assent."⁴ In actual fact, therefore, he gets no compensation for improvements. He has no claim to the residual value of manure. Moreover there are harsh rules of distraint in the case of non-payment of rent.

1. Calvert, *op. cit.*, p. 199.

2. Mukerjee, R., *Economic Problems of India*, Vol. I, p. 236.

3. *Ibid.*

4. Calvert, *op. cit.*, p. 200, Footnote.

(v) *Madras*.—In the Zemindari areas of Madras the rights of the tenants are protected by the Madras Estates Land Act of 1909, which replaced the old Rent Recovery Act of 1865. "The main principle of the Act is that every cultivator, admitted by the landholder to the cultivation of the estate lands, has the status of an occupancy ryot who is protected against eviction so long as he continues to pay the prescribed rates of rent. Enhancement of rent is allowed only on certain clearly defined grounds and a non-occupancy tenant also may acquire occupancy right, under certain conditions."¹ The Congress Ministry in 1939 sponsored a bill to amend this law. The aim of the new bill was to declare the right of the ryot to the soil and the standing crops of the zemindar, and to make the rent payable to the zemindar, unalterable. The zemindars interpreted it as expropriation without compensation and the bill did not reach the Statute Book.

In the ryotwari areas of Madras the ryot or occupant possesses full proprietary right. He can sub-let the land to tenants. The tenant here is absolutely unprotected and has almost the status of a farm labourer. "Sub-letting is generally on a partnership basis; seeds, cattle and implements are usually supplied by the landlord who obtains 40 to 60 per cent of the yield."² The tenant ekes out a precarious subsistence on such terms, according to the Banking Enquiry Committee.

(vi) *Bombay*.—Until recently there was no tenancy law in Bombay. Tenancy was generally governed by customary law. The need for legislation, however, was felt for some years and it was the Congress Ministry which took the pioneer step and passed the Bombay Tenancy Act in October, 1939. The Act received the Governor-General's assent in April, 1940, and came into force in certain selected areas in 1941. The main provisions of this Act are given below :

(a) A new class of "protected tenants" is created, and provision is made for their protection from eviction, provided they held land for at least six years immediately preceding January 1st, 1938, and have personally cultivated such land during this period. Tenants evicted after April 1st, 1937, are to be considered protected tenants under certain conditions.

(b) The security of tenure is subject to certain conditions like the desire of the landlord to cultivate land himself, to use it for non-agricultural purposes, failure of tenant to pay rent, sub-letting

1. Kale, *op. cit.*, p. 792.

2. Mukerjee, *op. cit.*, p. 234.

by tenant, etc. But if ejected, the tenant is entitled to compensation for improvements made on the land.

(c) The Act provides for procedure by which the reasonable rent payable by a protected tenant (in the absence of an agreement) is to be determined.

(d) Certain benefits are conferred on all classes of tenants. Penalties are provided for various exactions by landlord other than the rent lawfully due. In some areas the Government can fix maximum rates of rent. It is also provided that when Government suspends or remits land revenue, rent should also be suspended or remitted except in the case of crop share rents. Tenants are entitled to the produce and wood of trees planted by them during the period of tenancy and compensation for such trees, if ejected.

(e) Clause 23 provides that no agricultural lease is to be made for less than ten years. This is to encourage tenants to improve the land and benefit from such improvements.

(vii) *Bihar and Orissa*.—Let us take these two provinces together since they were originally one. Though an enactment in 1934 made illegal the imposition of heavy exactions (*salamis* and *abwabs*) on the tenants in Bihar and Orissa, they were still exacted. These were specially vexatious in Orissa, where temporarily settled estates were the rule and permanently settled estates the exception. Soon after the Congress came into power in these two provinces, they sponsored new tenancy measures. The Bihar Tenancy Act was passed in 1938. Its main provisions were: It gave absolute right of transfer to the ryot of his holding, made levy of *abwab* an offence punishable with imprisonment, reduced interest on all arrears on rent to 6½ per cent, and disallowed all enhancements of rent except those made on ground of improvements effected by landlords.

The Madras Estates Land (Orissa Amendment) Bill was passed by the Legislature in the teeth of landlords' opposition but it failed to secure the assent of the Governor-General. The Orissa Tenancy Amendment Bill was passed in May, 1938. This also raised a storm of protest. This measure gave right of transfer to occupancy tenants and of making use of trees grown on their holdings and provided heavy penalties on landlords imposing illegal exactions.

Thus it will appear, that the necessity of giving the tiller of the soil security of tenure and saving him from unreasonable

burdens of rent and other charges is gradually being recognized all over the country. By such methods the evils of absentee landlordism can be met to some extent and agricultural development secured under the system of tenant farming. But why take tenant farming as something that is given as a permanent fact?

8. Land Tenure in Relation to Agricultural Progress :

Which of the systems of land tenure is best from the point of view of agricultural progress and productivity? It is difficult to give a positive answer to this question which will be true under every circumstance. Experience in different countries leads to different conclusions. The most generally prevalent view is that the owner cultivator produces the best results. "Give a man the secure possession of a bleak rock," wrote Arthur Young, the English traveller, "and he will turn it into a garden; give him a nine years' lease of a garden and he will convert it into a desert." In Denmark it was found that tenancy led to indifferent cultivation. This led to a scheme which created a large number of contented and prosperous small holders. Speaking about the tenant cultivation in the Punjab, Calvert wrote: "They generally take less care in preparing the crops, plough it less often, manure it less and use fewer implements upon it than owners. They grow less valuable crops, especially avoiding those requiring the sinking of capital in the land; they make little or no effort of improving their fields; they often keep a lower type of cattle; they avoid perennials and bestow no care on trees."¹ At another place he gives his conclusion: "On the whole it would appear that the best cultivation is done by the self-cultivating owner or occupancy tenant, next by the share-tenant, and worst by the hired labourer."²

The "batai" system prevailing in the Punjab under which the rent is paid in kind ($\frac{1}{2}$ of the gross produce as a rule) does not conduce to good cultivation. This is as one would expect. "When the cultivator," says Marshall, "has to give to his landlord half of the return to each dose of capital and labour that he applies to the land, it will not be to his interest to apply any dose the total return from which is less than twice enough to reward him."³ Batai rents are, however, justified by some people on the ground that they secure automatic adjustment of rent to prices, and hence conduce to good relations between the

1. *Wealth and Welfare of Punjab*, p. 206-07.

2. *Ibid.*, p. 203.

3. Marshall, *Principles of Economics*, p. 644.

tenants and landlords, and develop mutual interest between the two. "But these advantages are purchased at too high a price."¹

Tenancy, however, is not to be condemned under every circumstance. "The best agriculture in the world is carried on under the tenancy system² (England)." This is because "an English landlord is his tenants' best friend and spends fully one-third of his rental back on the land and its needs; most Punjab landlords levy double the rent an English landlord would do and spend practically nothing back on the land."³

It is not, therefore, merely the system of land tenure which is the deciding factor under such conditions. The character of the tenant and of the landlord must equally be taken into consideration. When the tenant is easily ejected or no compensation is paid for the improvement which he might have brought about in his land, and the landlord is merely interested in receiving his rent, cultivation is bound to be indifferent. But when the tenant enjoys security of occupation, and law provides for compensation for improvement brought about by him in the land and further the landlord invests capital in the land, tenant farming can show as good results as any farming. In fact it can produce better results since the landlords' capital resources are much greater than those of a small peasant proprietor. But if the choice is between a peasant proprietor and an absentee landlord, who is a mere parasite, the former is to be preferred.

9. New Lines of Reform : But are these the only two alternatives? Russian experiment has shown that neither the tenant nor the small peasant proprietor is the best agency through which the nations' land may be properly exploited. Two more alternatives are far more efficient, (a) Nationalization of land and its exploitation on the principles of collective farming. Here the land belongs to the state and cultivators work on it with the help of equipment supplied by the Government and receive their wages. (b) Small peasants may own land but may work under the management of a Co-operative Society. In this way they will receive payment as owners of land, as owners of capital if any, and as workers for their work. Since desire for ownership is an ingrained sentiment in India (especially in the Punjab) Co-operative farming has greater scope here. But large estates may be nationalized (with compensation to the present owners) and may be worked by the present tenants as collective farms. The

1. Calvert, op. cit., p. 198.

2. Carver, *Principles of Rural Economics*, p. 126.

3. Calvert, op. cit., p. 298.

absentee landlord in any case must disappear. In the words of the Floud Commission, he "has become an incubus on the working agricultural population, which finds no justification in the performance of any material service, so far as agricultural improvements are concerned, and fails to provide for any effective means for the development of the resources of the land."¹

The small peasant proprietor also is an anachronism since he cannot carry on agriculture on modern scientific lines. "The economic future of land is with collective farms and garden cities" says Bernard Shaw, "and no person whose notion of land reform is to turn all the crude agricultural estates into little peasant properties. . . should be allowed to meddle with politics in any capacity."²

Of course, the landlord class will resist any change in the direction of nationalization of land for purposes of collective farming. Recently the Government of India wrote to provinces regarding the undertaking of an inquiry into the systems of land tenure. The attitude of several of them was that they did not wish to take up such an inquiry at the present time as the only result might be to embitter relations between landlords and tenants.³

Such being the case, for the present, the Government might carry on experiments in collective farming and co-operative farming on land still under Government control, in order to see which of the systems produces best results. If the Government cannot manage such schemes, private capitalists may be encouraged to undertake them to start with.

1. Report, p. 37.

2. Shaw, G.B., *Everybody's Political What is What?* p. 19.

CHAPTER V

THE AGRICULTURIST AND HIS EQUIPMENT

1. Introduction : After considering the legal position of the cultivator with respect to the land he cultivates, we come to the study of the equipment at his disposal for the exploitation of his land. This involves the study of the size and character of his holding, the implements, the seeds and manures used by him, the type of livestock possessed by him, the irrigational facilities within his reach and, finally, his personal equipment as an agriculturist worker and enterpriser.

2. The Holding : The most obvious fact about the holding of an average cultivator is that it is small in size and is not found in a compact block at one place, but is scattered about in tiny bits all over the village area. Holdings may be viewed from two points of view : from the point of view of ownership and that of cultivation. The ownership holding or proprietary holding may be quite large, but it may be distributed among a number of tenant cultivators, thus making the size of the unit of cultivation small. Conversely, a large number of small owners' holdings may be cultivated by a few tenants, thus making the cultivator's holding large. Where the owner is himself the cultivator of his holding, the ownership and cultivation units coincide unless, of course, he rents a part of his holding to others or hires on rent more land from other owners. From the point of view of agricultural productivity, it is the size of the cultivation holding that matters most. It should be of an "economic" size.

3. Economic Holding : What is an economic holding? It is not easy to give a satisfactory answer to this question. The size of a holding which would be called economic will vary with a large number of circumstances. For instance, it will depend upon : (a) The methods of production used with mechanical methods of agriculture, such a size may be 200 acres or more, while with primitive methods as they prevail in India, even a holding of 50 acres may be too large to be economic.

(b) The kind of agricultural production.—For the production of wool and wheat the size of the holding has to be large to give best results. For vegetable and fruit production the size required will be comparatively small.

(c) The productivity of the soil.—When the soil is good, a small area may be adequate to support a family in comfort; when the soil is inferior or lacks proper irrigational facilities, a larger area may be necessary. For instance, 6 acres in Jullundur district of the Punjab may give a higher standard of living to a family of five than, say, 15 acres in Attock district.

(d) The way agricultural operations are organized.—For instance, if farming is carried on co-operatively by a number of families, a large size of a holding may produce best results, while, if it is carried on individually, a small size may be good enough. This is partly because under co-operative farming more scientific methods can be profitably applied.

But if the size of the family and the character of their equipment is already given, the size of the holding, which should be called economic, will be such as would give them a reasonably decent standard of living. Such a holding varies in different parts of India according to the character of the soil, rainfall and other facilities for irrigation and marketing.

Some writers have given their view about an economic holding in India on the basis of their investigations in particular localities. A few of these may be noted. Dr. H. Mann defines an economic holding as one which will "provide an average family with the minimum standard of life considered satisfactory."¹ He puts the size of such a holding at 20 acres. According to Keatings, an economic holding should allow a man a chance of producing sufficient to support himself and his family in reasonable comfort after paying his necessary expenses.² He puts such a holding in the Deccan at 40 to 50 acres of fair land in one block with at least one good irrigation well. According to Sir Vijayaraghavacharya, "from 4 to 6 acres is the minimum subsistence family holding." Of course, the size, he agrees, will differ with differences in soil, productivity, water supply, crop rotation and agricultural practice.

4. The Size of an Indian Owner's Holding : Whatever definition of an economic holding may be adopted, it is regrettable that in India by far the largest number of holdings, whether cultivation or proprietary, are of a size which could hardly be called 'economic.' To take the Punjab first, some years ago, Mr.

1. Land and Labour in a Deccan Village, Vol II, p. 43.

2. Rural Economy in the Bombay Deccan, pp. 52-53.

3. "The average area held by each right holder (in India) is small, and there are a very large number of such holdings under two or three acres." Report of Agricultural Commission, p. 143.

(ii) About 40·4 per cent of the owners own from one to less than five acres, the land involved being 11 per cent of the whole.

(iii) About 26·2 per cent of the owners possess from five to less than 15 acres, the land being 26·6 per cent of the whole.

(iv) About 11·8 per cent own from 15 to less than 50 acres, the land being 35·6 per cent of the whole.

(v) About 3·7 per cent possess 50 and more acres and own, at a rather rough estimate, 25·7 per cent of the land.¹

“The average cultivated area per owner in the Punjab is between seven and eight acres.”² The holdings in the other provinces are still smaller. In Bengal, 46 per cent of the farmers have holdings below two acres each, while another 21 per cent have two to four acres each.³ The average size varies from two to three acres in Madras to half an acre in Bihar and Orissa. In the United Provinces it is two and a half and in Assam it is barely three. According to Dr. Mann, the average size of the holding in Pimpla Soudagar (a village in the Poona district) was as much as 40 acres in 1771; by 1915 it had been reduced to only 7 acres. “81 per cent of these holdings,” says Mann, “are under 10 acres in size while no less than 60 per cent are less than five acres.”

As already noted, the size of cultivation is more significant than the size of ownership. Many of the holdings below one acre in the Punjab, for instance, belong to non-agriculturists and are cultivated along with other areas. On the other hand, most of the large holdings are parcelled out by the owners to tenants, each cultivating comparatively small areas. What then is the position as regards the size of cultivation?

5. Size of Cultivation : In another inquiry carried out by Mr. Calvert into the size and distribution of cultivators' holdings, he found that in the Punjab (i) 22 per cent of cultivators cultivated one acre or less each; (ii) a further 33 per cent of cultivators cultivated from 1 to 5 acres each; (iii) a further 31·9 per cent of cultivators cultivated from 5 to 15 acres each; (iv) a further 12·6 per cent of cultivators cultivated from

1. Calvert : op. cit., pp. 172-73.

2. *Ibid.*, p. 172.

3. Report, Bengal Land Revenue Commission, Vol. II, p. 114-115.

15 to 50 acres each ; and (v) only one per cent cultivated over 50 acres each.

Comparing the results of his two inquiries, Mr. Calvert concludes : " There appears to be about 500,000 ownerless cultivators, a real tenant class ; the number with one acre or less is disconcertingly great ; numerous small owners in the 1 to 5-acre group have managed to get enough land on rent to take them out of this group into one higher up ; once the 15-acre holding is passed the number dwindles sharply. As the size of a holding considered cultivable by one yoke of oxen is about 14 acres, it is clear that very many have failed to increase their holding to this size, so that there is a real demand for land on rent, a fact which accounts for the high rents and the ability of the landlord to exact a fifty per cent share instead of a reasonable cash rent."¹ Thus the majority of the holdings in the Punjab are below the economic level.

In the table below are given the number of cultivated acres per farmer and the average size of holdings in 1931. The table reflects conditions among permanent right-holders. The actual position is worse because many of the smallest cultivators cultivate extremely tiny fields.

Province	Per cultivator cultivated Acres.	Average size of holding. Acres.
Bombay	16.8	11.7
C. P.	20.0	8.5
Punjab	8.8	7.2
Madras	5.9	4.5
Bengal	3.9	2.4
Assam	3.4	About 2.0
U. P.	3.3	6.0
Bihar	2.9	Between 4 and 5
Orissa		
Sind	...	38.7

Compare with these figures the averages per cultivator relating to some other countries :—

Belgium	...	5.7
France	...	15.5
Germany	...	19.25
England	...	26.95
Scotland	...	56.31
Wales	...	38.05
U. S. A.	...	140.0

In Japan the average holding is about $2\frac{1}{2}$ acres and in Egypt it is about the same size. It should be remembered, however, that while in India intensive methods of cultivation are an exception, the size of the holding is comparatively small. In Japan, Belgium and Denmark small holdings are accompanied by highly intensive cultivation. Even in India where holdings are extra small (e.g., Bengal, Assam and U.P.) it is the intensive rice cultivation that makes it possible for the cultivator to support a family on his tiny holding. Inequality of the averages is also due to the differences in the quality of the soil and rainfall.

6. Fragmentation of Holdings : Sub-division of holdings mean the small size of the total area held or cultivated. Fragmentation implies the scattered character of this area into small pieces all over the village area. Though usually fragmentation of ownership also means fragmentation of cultivation, this need not be always the case. A cultivator may take on rent a block of land consisting of several plots belonging to different owners. On the other hand, a consolidated owners' holding may be let on rent to different tenants in fragmented pieces. From the economic point of view consolidation of cultivation is more important than consolidation of ownership unless, however, the owner is himself the cultivator as is mostly the case in the Punjab.

Fragmentation is normally caused at the time of sub-division of property among several owners each of whom wants to get a portion of each of the ancestral pieces. Fragmentation of cultivation is, therefore, the result of the fragmentation of ownership. A few examples will give some idea of the extent of fragmentation existing in India. In the village of Pimpla Saudagar, Dr. Mann found that 156 owners owned between them 729 plots of which 463 were less than 1 acre, and 211 less than a quarter of an acre. In Ratnagiri, the size of individual plots is sometimes as small as 0.00625 of an acre. In the Punjab, some fields have been found which were a mile long and a few yards wide, and others so small that it was not possible to cultivate them. As regards fragmentation of cultivation in the Punjab village of Bairampore, Mr. Bhalla found that 34.4 per cent of the cultivators had over 25 fragments each. In Pimpla Saudagar 62 per cent of the plots were found to be less than one acre in area and in Jategaon there were 31 per cent of such plots.¹

7. Causes of Sub-Division and Fragmentation : The main causes which have led to the small size of holding and of individual plots are given below :—

¹ Report, Royal Commission on Agriculture, p. 134-35.

(i) *Growth of Population.*—As the population grows and the area under cultivation does not increase proportionately, land gets divided among larger and larger numbers of people and thus the size of an average holding decreases.

(ii) *Laws of Inheritance.*—Both the Hindu and the Muslim laws of inheritance favour partition of landed property in equal shares amongst the heirs. At the time of division, it is usual for the heirs to demand a piece from each quality of land. Thus with sub-division of holdings also occurs fragmentation.

(iii) *Decay of handicrafts* due to foreign competition has also increased pressure on land, especially when there has been no corresponding industrial development of the modern type to take away the surplus population from land.

(iv) *Attachment to the Landed Property.*—In India, the sentiment in favour of landed property is great. It is a source of prestige and the land-owner does not sell out his land easily, even when he can seek his fortune in the towns. Thus everyone sticks to his little share of property and thus helps sub-division and fragmentation.

(v) The advent of the British rule, by establishing peace and security and definite rights in land, has also encouraged investment in landed property on the part of money-lending and other middle classes.

(vi) Agricultural indebtedness has also acted in the same direction. Frequent divisions of landed property have been caused by the chronic state of indebtedness of the peasantry.

(vii) Breakdown of the joint family system and the growth of the spirit of individualism has made joint farming an exception and partition the rule.

The main cause, however, is the increase in population unaccompanied by adequate expansion of the alternative avenues of employment.

8. Evils of Sub-Division and Fragmentation: The sub-division of holdings is sometimes justified on the ground that it gives equal chances to all the heirs of landed property and prevents the creation of a class of landless labourers and thus conduces to economic and social stability. Similarly, fragmentation of property is defended on the ground that it gives insurance against vagaries of seasons by enabling the cultivator to sow his crops on different soils and in different localities. Moreover, it makes possible a more elaborate rotation of crops. But the evils

of small and fragmentary holdings are much greater than any advantage that may accrue from such holdings. Certain evils are common to both sub-division and fragmentation and others are peculiar to fragmentation only.

Sub-division and fragmentation are wasteful and are a serious obstacle in the way of agricultural improvement.

In the first place, under such conditions even the poor equipment possessed by the Indian cultivator cannot be used to the best advantage. The holding is too small to get the best results from such equipment.

Secondly, it makes scientific cultivation, like digging of wells, employment of labour-saving devices, introduction of more valuable crops and large-scale production, an impossibility.

Thirdly, the standing charges being the same on a small farm, the cost of production per unit of produce is higher than on a large farm. For instance, fencing charges per acre on a small and fragmented holding are higher.

Fourthly, initiative and enterprise are discouraged due to difficulties of protection of the crops from weeds, animals and humans and also due to the necessity of following the crowd in rotation of crops, etc. Independent well-digging is not possible.

Fifthly, much area is wasted in hedges and paths.

Apart from these, there are further evils of fragmentation alone. There is considerable waste of time, energy, produce and manure when the plots lie scattered about over a big area. Some plots are so small that it is not worthwhile cultivating them and thus there is waste of land. Moreover, disputes about boundaries, rights of passage for man, beast and water are a common feature of village life and cause waste of time, money and energy of the cultivator.

9. Proposed Remedies ; Various remedies have been proposed to meet the evils of sub-division and fragmentation. There are remedies which involve the enlargement of small and un-economic holdings and consolidation of already fragmented holdings. Then there are suggestions for prevention of further sub-division and fragmentation of holdings. These remedies are detailed below :—

(i) **Creation of Economic Holdings.**—This may be done either (a) by socialization of all land and then its redistribution among the peasants in blocks large enough for economic exploitation. This remedy is too drastic for India and will require the reorgani-

zation of our whole economic life which is not practicable under the present conditions.

(b) Individual landed property may be pooled for the purposes of cultivation on the co-operative farming principle while keeping private property in land intact. This method has some scope in India but has not been tried due to several practical difficulties of management and psychology of the people.

(c) In Italy money is advanced and old mortgages are taken over by the State in order to promote the formations of economic holdings. Since the number of uneconomic holdings is very large and the sentiment in favour of ownership strong in India, this method will be beyond the finances and power of the State. The State, however, can help in relieving pressure on land by creating alternative avenues of employment through a policy of planned industrialization.

(ii) *Preservation of Economic Holdings.*—Another and comparatively more practicable method is not to allow holdings that are economic to become sub-divided into uneconomic ones. This may be done in several ways:—

(a) By changing the laws of inheritance which promote sub-division and substituting, for instance, the law of primogeniture by which landed property will pass on to the eldest son. This method will create economic and social difficulties. Arrangements will have to be made for the support of the younger sons for whom avenues of employment are extremely restricted in this country. This might lead to the creation of a large landless class which will be a danger to social and political stability. Moreover, Hindu and Muslim religious sentiment will not allow the change of laws of inheritance.

(b) By making a holding indivisible after it has reached a certain size to preserve its economic character. Egypt has passed the Five Fedden Laws to check sub-division beyond the size of an economic holding. "Although the land is nominally divided amongst the heirs, it is actually left in the hands of one to cultivate on behalf of the whole number or may be handed to trustees to manage for all."¹ Mr. Keatinge suggested giving to the right-holders in an economic holding power to register it as such in the name of one right-holder, after which the holding became impartible and not liable to further sub-division. In fact, a Bill was drafted in Madras, which was to be a permissive measure, to put this scheme into effect. A similar Bill was introduced in the

Bombay Legislature which aimed at stopping further sub-division of holdings and consolidation of existing small holdings for profitable cultivation. But these measures met with criticism and opposition and could not pass the Legislatures. The main points of criticism were that such measures would defy the social system of Hindus and Muslims, would create a landless class, reduce agriculturists' credit and would create complications in revenue records. Moreover, the difficulty of defining an economic holding suited to varying conditions was also pointed out.

(c) "In the Punjab canal colonies, sub-division has been checked by restrictions on alienations, and in the case of certain grants by the limitation of succession to a single heir; so far as right-holders are concerned, the policy has proved successful, but it has not served to prevent joint cultivation or even sub-division of cultivation; the single heir, when the elder brother, is not in a position to refuse livelihood to his younger brothers, even though he cannot give legal rights in land."¹ There is no doubt, however, that restrictions on alienation have the effect of preventing sub-division. "It needs no argument to show," wrote the Agriculture Commission, "that if the five million acres which the non-agriculturists in the Punjab have acquired in the last eighty years had remained in the hands of the original owners, the average holding would be much higher than it is."²

Thus it appears that prevention of sub-division and creation of economic holdings in India are fraught with many practical difficulties. The remedies available are too drastic to suit the present circumstances.

In the case of fragmentation, however, that evil can be met much more easily.

10. Consolidation of Holdings : "The only measure that appears to promise relief," wrote the Royal Commission on Agriculture, "from the evils that arise from fragmentation of right-holders' holdings is the process which is generally known as the consolidation of holdings, though it is in reality the substitution—by exchange of land—of a compact block for a number of scattered fragments. By this process, all the land of one holder may be formed into one plot only, or in a few plots of different kinds of soil."³

The work of consolidation was started first in the Punjab as far back as 1920-21. By July 1937, 791,358 acres had been con-

1. Report, Royal Commission on Agriculture, p. 136.

2. *Ibid.*

3. *Ibid.*, p. 138.

sold out of the total cultivated area of 30,000,000 acres. Originally, the work was done on voluntary basis. The Consolidation of Holdings Act, 1936, however, allowed compulsion to be used if a stubborn minority stood in the way. By the middle of 1939, there were in the Punjab 1,477 co-operative consolidation of holdings societies. By the end of October 1941, the total consolidated area amounted to about 1,300,000 acres. Consolidation of holdings have brought many advantages. Arable area has increased and so has its productivity. There is greater desire for improvement among the owners. Occasions for litigation have decreased. "It may, however, be pointed out that in the case of the Punjab, consolidation is facilitated by comparative homogeneity of soil and by simplicity of tenure."¹ According to the Floud Commission, two causes have favoured consolidation in the Punjab: (i) crops depend entirely on irrigation so that the peasant whose plots are consolidated is in a position to sink a well, and (ii) that there is very little subinfeudation in the Punjab.

The lead of the Punjab was followed by other provinces, notably the Central Provinces and Berar, the United Provinces and, among the States, Baroda. In 1939-40, there were 182 Co-operative Consolidation Societies in the United Provinces and they had consolidated by that time 77,672 pucca bighas of land. A Consolidation of Holdings Act was passed in 1939 under which consolidation is being carried on as in the Punjab, side by side with the work done by co-operative societies. In Madras, in 1939-40, there were only 22 societies for consolidation. A beginning, however, has been made. In the Baroda State, useful work has been done by consolidation societies, whose number in 1939-40 was 79.

The work done in the Central Provinces deserves greater attention. There, some work had been done by co-operative societies on voluntary basis. But in 1928, the Consolidation of Holdings Act was passed which introduced an element of compulsion. In the first instance, the Act was applied to the Chhattisgarh Division only. Under it, compulsion could be exercised on the rest if one-half of the right-holders, owning not less than one-third of the occupied village area, declared themselves in favour of consolidation. Under this Act about 500,000 acres have already been consolidated.

The Bombay Small Holdings Bill was introduced into the Legislative Council in 1927. Its object was to stop further subdivision of holdings and to create "profitable holdings"—which

could be profitably cultivated—and to promote consolidation. On account of strong opposition in the Council and outside, the Bill had to be indefinitely postponed and never became an Act.

No practical scheme of consolidation has been evolved in Bengal. The Floud Commission was of the view that, although desirable, consolidation would involve great practical difficulties. "The State action," wrote the Royal Commission on Agriculture, "in favour of consolidation, where it is introduced under a permissive Act, should be taken in a guarded manner. Special areas should be selected for notification and full inquiry should be made into the opinions of the right-holders before any measure of compulsion is enforced. . . The State should undertake propaganda work, should explore the actual situation and should also bear the cost in early stages."¹

Perhaps this policy of "caution" was justified in earlier stages when most people were not familiar with the advantages of consolidation. We feel that time has come now to make consolidation of holdings compulsory in every village except when in the opinion of the authorities definite practical difficulties exist. Merely because the idea does not appeal to most of the owners should be no reason to desist from this necessary reform. Of course, before compulsion is applied, ground should be prepared by persuasion and propaganda.

11. Problems of Indian Soil: We have already seen that the size of an economic holding is closely related to the nature of the soil. Where soil is fertile a small holding will support a family and where it is inferior a much larger area may not do so. The fertility of the soil depends upon its physical and chemical qualities. Physically, the soil should be firm enough to take hold of the roots and soft enough to allow free movement of water. Chemically, it should contain a balanced quantity of essential salts.

In a previous chapter we have already studied the main types of soils that are found in India. The question is frequently asked whether the Indian soil is deteriorating. In 1893, Dr. Voelkar in his report held the view that no positive evidence was available of soil exhaustion though Settlement Officers throughout the country generally held the view that Indian soil was getting less productive. In 1928, the Royal Commission on Agriculture wrote as follows:—"Such experimental data as are at our disposal support the view, that when land is cropped year by year, and when the crop is removed and no manure is added

stabilized condition is reached . . . while the paucity of records throughout India over any long period of time makes the matter impossible of exact proof, we are of opinion that strong presumption is that an overwhelming proportion of agricultural lands of India long ago reached the condition to which experimental data point. A balance has been established and no further deterioration is likely to take place under existing conditions of cultivation.”¹

In 1937, Sir John Russell wrote, “The acreage under rice is apparently declining . . . I was on several occasions informed that the yields are declining. No good figures seem to be available, but if further inquiry indicated any basis for the belief, it would be desirable for the Council to arrange for sample surveys to be taken in a region where the decline is said to be going on in order to obtain definite information in the matter.”²

In 1939, Rao Bahadur Bal, Agricultural Chemist to Government of C.P. and Berar, expressed the view that the history of crop-yields does not indicate any progressive decline in the yield per acre during the period 1900-22. But he attributed this to the fact that “the soil has reached a stationary state of fertility at a low yield.”

The Bengal Provincial Banking Enquiry Committee was of opinion that in Bengal “the fertility of the agricultural land is deteriorating.”³

Thus the general view is that, although positive data is lacking, whatever tests are available show that Indian soils have reached almost the lowest stage of deterioration. This appears quite a reasonable assumption in view of the fact that very little is returned to the soil in the way of manures while heavy cropping is taken year after year. Cow-dung is burnt, bones are exported and so are oil seeds to a large degree. Night soil is wasted and chemical manures are beyond the pocket of the cultivator. On the other hand pressure of population on land favours frequent cropping.

12. Soil Erosion : Apart from the question of soil exhaustion is the deterioration of the soil through the process known as soil erosion. Soil erosion implies washing away of the surface soil either through river floods or excessive rain in the hills. The

1. Report, p. 76.

2. Russell, *Report on the work of the Imperial Council of Agricultural Research*, p. 24.

3. Report, p. 21.

rivers might bring cultivated land under its sweep or may throw a thick layer of sand over it thus making it unfit for cultivation. Surface erosion may also be caused by heavy rains in areas that have not been properly protected through the construction of embankments.

The problem of soil erosion has arisen in several provinces of India. It is of special importance in the United Provinces and Western Bengal where a net work of ravines has been formed through this process. Due to heavy rainfall on hill-sides, soil erosion has occurred in the southern districts of Bombay Province and Chhota Nagpur. In the Punjab, it is found in the sub-montane districts from Hoshiarpur up to Ambala in the East and up to the Salt range in the West. From Jhelum this range goes up to Talagang tehsil of Attock district.

In the Hoshiarpur district alone, 100,000 acres of land have been rendered unfit for cultivation through soil erosion. In Jhelum district, more than 100,000 acres have been spoilt. Either the land has been swept away through the action of hill-streams or it has been covered with sand through floods.

Soil erosion is not a peculiarity of India alone. In the U.S.A. "something like 17½ millions of acres of land which were once cultivated have been destroyed by gulying. In Illinois nine million acres which are subject to serious erosion have been rendered almost uncultivable."¹

Soil erosion may occur due to several causes: (i) Due to cutting of trees or deforestation. In Una tehsil of Hoshiarpur, fine trees have been cut by the Zemindars. In Attock and Jhelum districts, trees have been removed from the banks of the Swan stream and the land has become barren. (ii) Due to removal of vegetation which exposes land to wind and rain. This may be caused by increase of population or number of animals. (iii) Uncontrolled grazing, specially by goats. Grazing does not let the grass flourish and leads to denundation of the soil. (iv) Cultivation on hill slopes also has the same effect.

As regards remedies they consist in : (a) Replanting of trees ; (b) Building of embankments ; (c) Reclamation of land ; and (d) Control of Grazing.

The Punjab Government has created an Anti-Erosion Department to meet this evil.

Trees cannot be successfully planted unless grazing of cattle, sheep and goat is forbidden. A law exists in the Punjab under

1. Wadia and Merchant, *Our Economic Problem*, p. 153.

which areas can be closed against grazing either partially or wholly or seasonally.

Digging of contour trenches is useful. This consists in making of channels on the slopes at small distances. Thus the water flow is obstructed; the water gets absorbed in the earth. Seeds of grass and trees can be sown in these channels.

Embankment can be built by the cultivators themselves. Thus, water can be prevented from flowing down. This conserved water can be used for irrigation.

Reclamation of land in Chos is being done by the Forest Department in the Punjab.

Protection through planting of shrubs and wild trees by the Forest Department was suggested fifty years ago by Dr. Voelker in his famous Report. The same was recommended recently (1937) by Sir John Russell. He further suggested that protective measures be made a State-responsibility¹ as against the Royal Commission's suggestion of private co-operative effort.²

13. Manure: India can produce almost any kind of crop on account of her favourable climate and configuration of the soil. But the Indian soils are deficient in phosphoric acid, nitrogen and organic matter. And since the pressure on land has reduced the area kept fallow for reviving fertility, the use of artificial manures has become more and more essential. "Water and manure together," wrote Dr. Voelker, "represent in brief the ryot's main wants." The various sources of supply of manures are discussed below :—

(a) *Farm-yard Manure.*—This consists of cow-dung and the urine of cattle. The urine is allowed to go waste without any attempt at its collection. The cow-dung is widely used as fuel. This is not always due to lack of alternative fuel but to custom and prejudice, which should be systematically discouraged. Where cow-dung is burnt on account of real lack of fuel material, attempts should be made in co-operation with the Forest Department to make such fuel accessible to the villager. Planting of trees along roads and canals and in special village preserves, kept for this purpose, can considerably reduce the magnitude of the fuel problem. Burning of cotton stalks, dry stubble and other sweepings can also help. The villager should be instructed in the methods of preserving manure. Mr. Brayne did useful work in Gurgaon district of the Punjab in this

1. Report, p. 57.

2. Royal Commission Report, p. 80.

connection and his suggestions were later popularized in the whole of the province (and elsewhere) under the rural reconstruction drive. Thousands of pits were dug to preserve manure. But it appears that the results obtained under the guidance of Mr. Brayne and his staff were only temporary. Unless the psychology of the villager is entirely changed by constant propaganda and education, permanent results will not be forthcoming.

(b) *Composts*.—Compost is obtained by causing decomposition of all sorts of waste materials, sweepings, leaves and other vegetable matter. In China, vast quantities of composts are manufactured from the wastes of cattle, horses, pigs and poultry combined with herbage, straw and other similar waste.¹ Experiments in preparing composts have been made by agricultural departments of provinces like Bengal, Madras and Central Provinces. The departments, however, have not yet devised a practical method which can be used with profit by the ordinary cultivator on his land.

(c) *Night Soil*.—There is still great prejudice against the use of night soil as manure, though it is slowly breaking, especially where night soil is available in the form of poudrette. The methods of converting night soil into poudrette—in which form it is much less obnoxious to use—adopted at Nasik have proved quite successful and should be used all over the country. Co-operation between the agricultural departments and municipal authorities can produce profitable results. The sewage process of making the night soil into less obnoxious manure is recommended for towns where there is a regular sewage system.

(d) *Leguminous Crops and Green Manure*.—The Indian agriculturist knows the value of leguminous crops which improve the soil, e.g., gram. The agricultural department should discover new varieties of such crops and should popularize them. As regards green manure, the experiments of the agricultural departments have discovered that *sann* hemp on the whole gives the best results. But the trouble is that, when grown, it exhausts so much of the moisture in the soil that enough is not left to decompose it when it is ploughed in. Crops like *dhaincha* and groundnut, the leaves of which can be used as green manure without interfering with the commercial value of crops, are also good from this point of view. The area under groundnut has considerably increased in recent years.

(e) *Oil Cakes*.—By exporting oil-seeds, India loses a valuable source of combined nitrogen. If the oil is manufactured in the country, the oil cakes can serve as food for the cattle and also as a

1. Report, Royal Commission on Agriculture, p. 53.

source of manure. The Government should assist the development of oil-crushing industry in order to prevent this drain of India's wealth.

(f) *Chemical Manures.*—India is poor as regards mineral manures. Mineral phosphates are of poor quality. Crude nitre is available in Madras and Northern India. Gypsum is obtainable from the salt ranges. In advanced system of agriculture nitrogen is supplied from nitrate of soda, sulphate of ammonia, etc. In India, nitrogen is supplied by nature through rainfall, soil erosion, silts, etc. But in recent years, production and consumption of fertilizers have considerably increased in India. The sulphate of ammonia is recovered as a by-product from coal at Tatanagar. The increasing demand for artificial manures in India is also indicated by growing imports from abroad. The quantity of imports of such manures increased from 21,590 tons in 1925-26 to 1,03,000 tons in 1939-41. But as Sir John Russell pointed out in his Report,¹ the use of artificial fertilizers in India is very limited indeed. The relatively small amounts that are used are taken up almost entirely by the tea growers. It is now estimated that India requires, at least, 350,000 tons of chemical fertilizers every year.

(g) *Other Sources.*—Other articles that are used as manures in India are fish which are used at various places along the west coast where they are abundant but are not taken as food. Sea weed is available in immense quantities in areas near the sea coast and is a valuable fertilizer. Rice-husk-ash discovered by the Government Economic Products Department as a valuable fertilizer is by-product of the Burma rice mills.

In addition to these, the old methods of recuperating the soil by rotation of crops, raising mixed crops and leaving land fallow continue to be used to a more or less extent, though the pressure of population is a factor acting against the use of such methods.

It should also be noted that the Imperial Council of Agricultural Research—a body created in 1929 at the recommendations of the Royal Commission on Agriculture—constituted a standing Fertilizers' Committee in 1930. This Committee undertakes research in the problems of indigenous manures and also prepares programmes of research on fertilizers. Each province receives a grant to collect and correlate data on manurial experiments undertaken in the provinces.

1. Russell, J., *Report on the work of Imperial Council of Agricultural Research*, 1937, p. 56.

The food scarcity during the present war, especially the Bengal famine of 1943, has made the Government alive to the necessity of increasing food production in India. One of the steps taken to this end is to encourage the production of chemical manures in the country. Recently, a technical mission of British experts came to advise the Government in this matter. The mission was required to (i) investigate and report on the technical problems involved in the manufacture of sulphate of ammonia in quantities up to 350,000 tons per annum; (ii) recommend, in the light of raw material and power available, the most economic method of manufacture; (iii) indicate the approximate capital cost of the plant or plants and calculate the approximate cost of operations and production of finished sulphate of ammonia; (iv) recommend the most suitable site or sites for erection of the plant concerned, taking into account the raw materials, and the most economic distribution of the finished products; and (v) estimate the amount and the approximate value of the plant which it will be necessary to import from outside India making the fullest use of the available raw material and labour.

The mission in their report concluded that a single plant producing 350,000 tons of sulphate of ammonia per annum would be the most economical unit. They suggested that the factory should be state-owned and state-controlled. The Government has decided to establish a factory at Sindri, near Dhanbad in Bihar, for manufacturing 350,000 tons of sulphate of ammonia to start with. It has also been announced that the Government is investigating the prospects of erecting another unit of 100,000 tons per annum on a site south of Vindhyas. A mission is proceeding to the United States and Britain to negotiate for the purchase of plant and its erection.

Among the states, Travancore has already secured plant and machinery for the manufacture of 60,000 tons of sulphate of ammonia per annum. The factory was to start working by the end of 1945.

The Indian product will be subsidized by the State so that fertilizers are made available to the cultivators at prices which they can afford to pay.

14. Agricultural Implements: "Agricultural implements in India are, on the whole, well adapted to local conditions," wrote the Agricultural Commission. "They are within the capacity of the draught oxen, comparatively inexpensive, light and portable, easily made and, what is perhaps even of greater importance, easily repaired and they are constructed of material

which can be easily obtained.”¹ There is, however, great scope for improvement. The Agricultural Department has done some useful work in this direction, though much more could be accomplished. The Department has introduced several types of improved implements like iron ploughs, sugarcane crushers, small pumping machinery, water-lifts, harrows, hoes, seed drills, fodder cutters, etc. But compared with the total number of implements used in India, the improved varieties in use are no more than a drop in the ocean. For instance, the total number of ploughs used in India in 1925-26 was 25 millions while only 17,000 improved ploughs were sold in that year. The estimate of total number of ploughs in use was about 32 millions in 1937-38 and 6,716 ploughs of improved variety were sold through departmental agencies. The Royal Commission attributed the lack of progress in this matter to two facts :—Firstly, agricultural engineering was regarded as a secondary activity by the Departments and, secondly, the conservatism of the cultivator. The Commission suggested the reorganization of the Agricultural Engineering Section to remedy the first and greater propaganda to meet the second.² Though expensive machinery like tractors, threshing machines, etc., are beyond the financial ability of the small holder and could be used only on co-operative basis, cheap improved implements could be brought within the reach of his purse. This could be done by producing parts of simple instruments on a large scale, by the railways giving freight concessions for their transport, and the Government giving rebate on import duty, if necessary, on iron and steel used in the manufacture of agricultural implements. The Commission also warned against the excessive multiplication of improved types. “It merely confuses the cultivator,” they added, “and makes him suspicious of the whole policy of the Agricultural Department.”³ The aim should be evolution of a small number of types suitable for a wide range of conditions, and, therefore, suitable also for mass production. Improving the existing implements is more promising than introduction of new machines. Moreover, the relation of the capacity of the cultivator’s bullocks to the implements they are required to draw, demands careful investigation before new varieties are constructed. “If the draught capacity of the bullock should prove the limiting factor in regard to the adoption of improved implements in any part of India,” wrote the Commissioners “it is obviously useless, for the Agricultural Depart-

1. Report, p. 107.

2. Expensive machinery, however, is being employed on a limited scale by large holders in Sind, Bihar, Central Provinces and Bombay.

3. Report, p. 110.

ment to push the use of such implements in that tract until such time as a bullock has been produced which will prove equal to the work required of it, or until the condition of the present cattle has been improved to make them equal to drawing implements of greater draught."¹

Thus, it will be seen how the various aspects of agricultural improvements are inter-connected.

15. Improved Seed : The importance of good quality seed needs no emphasis. The seed is indifferently selected by the Indian agriculturist. In many cases the grain kept as seed is consumed by the family by the time the sowing season arrives, for it deteriorates on account of the careless ways of preserving it. Then the peasant has to borrow seed from the money-lender. Such seed is of indifferent quality. Thus the quality of the product tends to deteriorate progressively.

In recent years the agricultural departments have done good work in the matter of making available improved seed to the agriculturist. New varieties have been experimented upon, especially in the case of sugarcane, jute and cotton, and, to some extent, wheat and gram, etc. Arrangements are made to make them accessible to the peasant through various agencies established by the Departments of Agriculture and Co-operation, and also through private shops.

About 80 per cent of the total area under sugarcane, and about 50 per cent under jute is sown with improved seed. But progress regarding food and other crops is not so satisfactory. The greatest difficulty is that adequate supplies of good seed are not available. Sir John Russell recommended that the Imperial Council of Agricultural Research should consider the advisability of setting up some central organization in each province for the multiplication and distribution of seed of approved varieties.²

Another aspect of having improved seed is to prevent its deterioration through mixing with inferior seed. In this connection some years ago legislative measures were passed to prevent deterioration of cotton. Under the Cotton Transport Act of 1923, a Provincial Government can notify any area in which cotton of superior quality is grown, and prohibit the importation by rail, road or sea into such area, except under licence, of ginned or unginned cotton, cotton seed or cotton waste. The Act is in force in certain areas of Bombay and Madras. Such an Act will

1. Report, p. 111.

2. Report, op. cit., p. 50.

not be effective in the Punjab where short and long staple varieties are grown in the same tracts as in the colonies. Then there is the Cotton Ginning and Pressing Factories Act, 1925, under which adulterated or damped cotton can be traced not only to the factory which ginned or pressed it but also to the original owner.¹

16. Control of Crop Diseases and Pests : Closely connected with the problem of better seed is the control of pests and diseases of plants. If such diseases are left to take their toll, the gain obtained by better seed can be easily lost. The connection between these two is intimated also because certain varieties of seed can be evolved which are immune to disease or are "disease resistant."

The problem is very serious in the case of sugarcane. A survey taken in 1937 showed that 37 to 53 per cent of cane delivered to five factories in Bihar was infected as against 20 to 35 per cent in 1935. This shows that the trouble is spreading. It is estimated that the damage caused by insects and pests to Indian crops is to the value of nearly Rs. 180 crores annually.²

The main preventives fall into two categories: (i) Measures aiming at prevention of spreading of the disease from one locality to another, and (ii) measures to prevent and control the disease within a locality.

(i) This involves prohibition of imports of diseased plants from abroad, and measures to prevent spreading of disease from one province or state into another within the country. There is an Insects and Pests Act which allows importation of plants in general (with few exceptions) provided they are accompanied by a health certificate and enter at a prescribed port. "But insects and fungi that are harmless on their native soil may become destructive in foreign countries. It would, therefore, be safer to allow imports only of such types of plants as have been declared harmless by competent entomologists and mycologists after experimentation with the plants at isolated places."³

As regards the spreading of diseases within the country, the Insects and Pests Act permits inter-provincial legislation to prevent this spread but full advantage has not been taken of this provision by provinces and states.

(ii) As to the second set of measures, they consist of adoption of resistant varieties, changing the condition of the soil or time

1. Royal Commission Report, pp. 101-06 and 120.

2. Gangulee, N., *India What Now?* p. 129.

3. Nanavati and Anjaria, *The Indian Rural Problem*, p. 94.

of cultivation and destruction of pests by chemical or biological means. The Punjab campaign against spotted bollworm of cotton in 1938-39 showed that treated areas give the cultivators much greater yield than untreated areas.¹

In the interests of uniformity, Sir J. Russell recommended that executive action in this matter should be taken by the Central Government.

17. Livestock : Apart from land, the most important and the most expensive equipment of the agriculturist is his cattle. "Without them," to quote M.L. Darling, "the fields remain unploughed, store and bin stand empty, and food and drink lose half their favour, for in a vegetarian country what can be worse than to have no milk, butter nor ghee?" On account of his small and fragmented holding and limited financial resources, it is neither economical nor practicable for the Indian cultivator to use mechanical sources of power. The cattle alone serve this purpose. For ploughing his fields, for lift irrigation, and for carting his produce and manure they are indispensable. They are not only the source of milk and milk products but also supply him with manure and cow-dung fuel when alive and when dead yield meat, skins, hair and bones for a variety of purposes. It has been estimated that the Indian cattle, in spite of the fact that they are inadequately and uneconomically exploited, yield an annual income to the tune of over Rs. 1,265 crores. This is more than the value of India's cash crops.²

In spite of the utility and importance of the cattle, however, there are certain unfavourable features of our cattle population which deserve our special attention. In the first place, India is supporting too many cattle to be economically justifiable. According to the cattle census³ of 1935, India has about 310 million cattle of which about 220 millions are found in British India and the rest in Indian States. The total cultivated area in British India (excluding about 50 million acres of fallow land) is about 210 million acres. Roughly, therefore, in India we have about 100

1. Nanavati and Anjaria, *The Indian Rural Problem*, p. 94.

2. F. Ward in *Economic Problems of Modern India*, edited by R. K. Mukerjee, Vol. I, p. 140.

3. The total Indian cattle population including the Native States, but excluding Burma, according to the census of 1935, was as follows :

Oxen	...	67,771,558
Buffaloes	...	46,106,155
Sheep and goats	...	196,658,151
Total	...	310,535,864

cattle for a hundred acres of land annually sown with crops. For Holland the figure is 38 cattle per 100 acres and for Egypt 25 cattle. Further, it has been estimated that out of the 300 and odd million cattle in India as a whole only 60 million are working cattle. This gives an average of one pair of bullocks per 10 acres of cultivated land, "which is barely sufficient even in the Punjab where the largest working bullocks are to be found. In the other provinces, where a very large proportion of the cattle are underfed and undersized, the position is much worse, and the proportion of animals not capable of paving their way must be very large indeed."¹ Thus India possesses a very large number of superfluous cattle. No wonder a foreign visitor remarked that "India is being eaten by her animals."

How is it that there is an excessive population of cattle in this country? There are various reasons. The prejudice against destroying life is so strong among the vast majority of the people, that they would rather starve the cattle than kill them. Secondly, due to the inefficiency of the cattle and the high mortality rate among them the cultivator has to maintain a large number as reserve. The close connection between the "inferior quality" and excessive numbers has been well described by the Royal Commission on Agriculture. "We are of the opinion," wrote the Commission, "that the census figures suggest the existence of a vicious circle. The number of cattle within a district depends upon, and is regulated by, the demand for bullocks. The worse the conditions for rearing efficient cattle are, the greater the number kept tends to be. Cows become less fertile, and their calves become undersized and do not satisfy cultivators, who, in the attempt to secure useful bullocks, breed more and more cattle. As numbers increase, or, as the increase of tillage encroaches on the better grazing land, the pressure on the available supply of food leads to still further poverty in the cows; and a stage is reached when oxen from other provinces or male buffaloes are brought in to assist in the cultivation. This stage has been reached in Bengal."² It should be noted that Bengal has the highest number of cattle per 100 acres of cultivated area—109 compared with 68 in the Punjab and 43 in Bombay.

The inferior quality of the Indian cattle may be attributed to indiscriminate breeding, underfeeding and disease. These are all inter-connected. Excessive breeding leads to underfeeding which in its turn to low resistance against disease. The problems of

1. F. Ward, *op. cit.*, p. 139.

2. Agricultural Commission Report.

breeding, feeding and control of disease, therefore, demand our special attention.

18. Cattle Breeding : Indiscriminate breeding results from the fact that Indian cattle are allowed to roam about for grazing purposes in the village commons or on the stubble in the form of mixed herds. Indifferent qualities of cows are thus covered by indifferent qualities of bulls and thus a progressive deterioration of the race starts. To improve quality, breeding should be discriminate. Only good quality cows should be allowed to breed and they should be covered by specially bred or selected bulls. This involves castration of all male cattle above a certain age except those regarded good enough for breeding. It also involves the supply of specially selected or specially bred bulls. The Veterinary Departments of the Government have recently begun to perform the former function. As regards the second, the Imperial and Provincial Departments of Agriculture are paying greater attention to the problem of breeding bulls. Very useful work is being done at the Hissar farm in the Punjab where Pedigree Haryana breed bulls are being raised and are supplied at low prices for breeding purposes to district boards, etc. Similar work is being done at Hosur farm in Madras. The Imperial Agricultural Research Institute (removed to New Delhi in 1938 from Pusa) carries on experiments for the purpose of evolving the strains of cattle with better milking capacity and suited to Indian conditions. In the Punjab, the Government has encouraged private cattle breeding by giving grants of land to landlords but the success has been meagre. Lord Linlithgow with his scheme of "gift bulls" created a lot of enthusiasm in this matter and the Cattle Conference of 1937 also focussed public attention on this important problem.

19. Cattle Feeding : The cattle in India are underfed because : (a) the available area for growing fodder is not enough to feed them in view of the growing pressure of population on land ; and (b) the system of feeding is wasteful and careless. The cattle, especially the dry cows and non-working cattle, are left to themselves to get what they can from the waste lands. The problem can be solved by : (i) reducing the number of cattle by eliminating the superfluous ones and by controlled breeding ; (ii) increasing the supply of fodder. This latter cannot be done by bringing more area under fodder crops because land is not enough for the purpose. Production of fodder, however, can be increased by cultivating higher yielding crops like Egyptian clover (Berseem) and other grasses. The Agricultural Departments have made useful experiments in this connection. Certain forest areas

may be made accessible for grazing purposes by Government under controlled conditions; (iii) economizing fodder that is available. This can be done by stall feeding the animals, by preparing silage from inferior straw and waste, by cutting grass and preserving it as hay, by chopping fodder by the fodder cutter, etc.

20. Control of Cattle Disease : Indian cattle are subject to periodic epidemics (e.g., rinderpest, foot and mouth disease) and diseases. These are due to low vitality, unhygienic surroundings and polluted drinking water. Both preventive and curative measures are necessary. The Civil Veterinary Departments are performing these functions on a limited scale. As regards hygiene, it is a matter of education and propaganda and is a part of the general scheme of rural uplift. Prevention by inoculation with the various sera against epidemics has been tried on a limited scale. Lack of funds and the conservatism of the villager—which latter is gradually disappearing—have been the main limiting factors. Regarding the curative side of the problem, veterinary dispensaries exist and itinerant staff of the department also visit villages to help the cultivator but the number of such dispensaries is too small to adequately cope with the problem. For most villages the dispensary is at too long a distance to be of much use. Increase in the number of such dispensaries is the real need of the hour.

We may conclude, therefore, by saying that what India wants is not more cattle but better cattle and this object can be obtained by discriminate breeding, more scientific feeding and a better control of disease.

21. Irrigation Facilities : However favourable the character of the soil, seed and manure, and however efficient the implements and the cattle, if there is no adequate and regular supply of water, agriculture is a precarious business. Where rainfall is not seasonable, an adequate artificial irrigation becomes indispensable for agricultural operations.

The average rainfall in India as a whole is 45 inches per annum, but local variations are considerable. For instance, in Upper Sind and the South-West Punjab the annual average is not more than 3 to 5 inches, while in the submontane tracts of the United Provinces it is as much as from 50 to 100 inches. Not only the rainfall is inadequate in many places but it is also unequally distributed throughout the seasons. By far the largest proportion of the rain in the country (except South-East of the Peninsula) falls between June and October. During the rest of the year it is very little. It is because of this deficiency of rainfall

and its liability to failure that before the era of railways and canals, "ghastly famines ravaged the country periodically and scarcity was the common lot of the people over large areas in many years."¹

In 1939-40, the total sown area (including areas sown more than once) in British India was 244.57 million acres of which 55.08 million acres (or 23.9 per cent) were artificially irrigated. The importance of irrigation, however, varies considerably in different provinces² as the following table indicates:—

Major Province.	Per cent irrigated to total sown.	Major Province.	Per cent irrigated to total sown.
Sind ...	88.1	Orissa ...	20.8
Punjab ...	58.3	Assam ...	8.7
N.-W.F.P. ...	43.1	Bengal ...	6.4
Madras ...	29.2	Bombay ...	4.3
United Provinces ...	29.0	C. P. and Berar ...	3.9
Bihar ...	21.6		

The low percentage of irrigation in Bengal and Assam need not cause concern because of the plenty of rainfall in those provinces. But it is obvious that the provinces of Bombay and C.P. and Berar where rainfall is deficient require more irrigation facilities than they possess at present.

22. Kinds of Irrigation Works: There are three main types of irrigation works in India: (a) wells, (b) tanks, and (c) canals. The canals in their turn may be classified into:

- (i) inundation canals;
- (ii) perennial canals; and
- (iii) storage works.

Of the 55 million acres of net irrigated area in India in 1939-40, 29 million acres or more than half, were irrigated by canals, 13 million or a little less than one-quarter by wells, 6 millions by tanks and the remaining 7 millions by other sources.³

1. Sir Bernard Darley, *Economic Problems of Modern India*, op. cit., p. 148; also *Indian Year Book*, 1944-45, p. 288.

2. As regards the total area irrigated, the Punjab leads with 16.54 million acres, followed by United Provinces (11.96 million acres), Madras (8.44 million acres), Bihar (5.04 million acres), Sind (4.43 million acres), Bengal (1.89 million acres), Orissa (1.34 million acres), Bombay (1.14 million acres), C. P. and Berar (1.06 million acres) and N.-W.F.P. (1.03 million acres).

3. Among these may be mentioned lift irrigation from rivers and temporary dams for holding up flood water.

(a) *Well Irrigation*.—The chief well-irrigated provinces in India are the Punjab, the United Provinces, Madras and Bombay. Wells are mostly private works but the Government also helps in their construction. This is by advancing what are known as *takkavi* loans¹ and by exemption from enhancement of revenue, either temporarily or permanently; lands that have been improved by well irrigation, and by placing boring equipment and skilled labour at the disposal of the landlord. There are about 2½ million wells in India and the total capital invested in them is about Rs. 100 crores.

(b) *Tanks*.—While wells are privately owned, tanks are administered by the State. Outside the Punjab and Sind they are found in almost all the provinces. Madras contains the largest number, about 35,000. They are of all sizes ranging from big lakes formed by the erection of high dams across the beds of large but irregularly flowing rivers to village ponds. Most of the tanks came from very early times and many of them have been silted up. They are of great use in places where it is not possible to construct canals.

(c) *Canals*.—Canals are the most important form of irrigation at the present time. With very few exceptions they have all been constructed and are being maintained by the State. Canals are of two types: perennial and inundation canals. Perennial canals have an assured supply of water all the year round. The inundation canals get water only when the river concerned is in flood. Some of the inundation canals in the Punjab and Sind are being transformed into perennial canals by putting some form of barrage across the rivers which flow throughout the year and thus diverting water into the canals. The Sukkur Barrage in Sind is the greatest work of its kind. It was opened in January 1932. We may also mention a third type of canals—storage works canals. They are constructed by building a dam across a valley to store the rainwater during the monsoon. This water is then distributed for irrigation when required by the neighbouring lands. Such works exist in the Deccan, the Central Provinces and Bundelkhand.

Canals are classified by the Government in a different way. Before 1921 they were classified into (i) productive, (ii) protective and (iii) minor.

1. Loans given under the Land Improvement Loans Act of 1883. Under this Act advances are made to approved applicants at 6 per cent interest, (Bombay 5 per cent) and recovery is made by easy instalments, periods varying from 7 to 30 years.

(i) Productive works were expected to yield a net revenue sufficient to cover the interest charges on the capital invested within ten years of their completion. These are found mostly in Northern India and Madras and irrigated about 25 million acres in 1929-30. In 1938-39, they yielded 7.61 per cent on the total capital outlay of Rs. 114 crores.

(ii) Protective works were not expected to yield a direct return but were a measure of insurance against famines. While the productive works were constructed from funds raised by loans, protective works had to be built out of the current revenues. The cost was generally met from the annual grant set aside for famine relief and insurance. In 1938-39, such works irrigated 2.8 million acres and had a capital outlay of 38.79 crores.

(iii) Minor works belonged to a miscellaneous class, e.g., tanks belonging to pre-British period taken over mostly and improved by the British. They were also financed from the current revenues. Among these a distinction was made between those for which capital and revenue accounts were kept and those for which such accounts were not kept.

Since 1921 this classification has been abolished. Now loans can be taken for any work of public utility. Now all irrigation works for which capital and revenue accounts are kept are classified under two main heads, (i) productive, and (ii) unproductive. A third category is of those for which capital accounts are not kept.

23. Irrigation Development and Policy of the Government :

The policy of the Government with regard to irrigation has passed through many stages.

(a) The first efforts of the British Engineers under the E. I. C. were directed towards the improvement of the old existing indigenous works. Such were the Western Jumna Canal, the Eastern Jumna Canal, the Ganges Canal and Irrigation Works at the delta of the Cauvery and Kistna rivers. In the Punjab the Upper Bari Doab replaced the Old Hasli Canal which had carried water to Lahore and Amritsar in olden days. In the Punjab and Sind some old inundation works were improved, e.g., Begari Canal and Fuleli Canal.

(b) The second stage was of canal construction through private companies. The first company, the East India Irrigation and Canal Company was formed in 1853 to construct canals in Orissa. Work was started in 1863 but by 1866 the whole

of the capital of the company had been spent and in 1868 the Government took over the work paying expenses to the company to date. Orissa canals were eventually completed, similarly was completed the Sone Canal in Bihar which was a part of the company's original scheme. Another company was known as the Madras Irrigation Company, formed in 1863. This also proved a failure, and the Government was compelled to buy out the company after it had only completed one section of a vast scheme of Sir Arthur Cotton of utilizing the waters of the Tangbhadra and Pennar rivers.

(c) The third stage was the construction of productive irrigation works by the Government through funds raised by loans. This led to the construction of five irrigation works of great magnitude, viz., the Sirhind Canal in the Punjab, the Lower Ganges and Agra Canals in the United Provinces, the Lower Swat Canal in the North-West Frontier Province. This was during the last 20 years of the 19th century.

(d) The next stage was the construction of colonization canals in the Punjab. In 1880, greater portion of the Punjab consisted of arid waste with a rainfall which varied from 5 to 15 inches per annum, and this desert area was sparsely populated by nomad tribes of camel and sheep graziers. In order to open up some of these waste tracts, and at the same time to relieve the pressure on land in highly populated areas elsewhere, Government took over these unclaimed lands as crown waste and embarked on a scheme of colonization.¹ The country was surveyed and was divided into squares of land subsequently standardized at 25 acres each and on this land were settled members of the various agricultural tribes from the old districts. Eighty per cent of the land was given to small peasant proprietors in lots of from 1 to 2 squares each. Soon, new and improved villages and populous towns like Lyallpur grew up and the desert was turned within a few decades into smiling fields of wheat, cotton and sugarcane.

The first colony canals were the Sohag taken out of the Sutlej below Ferozepore, and the Sidhna in Multan district. The former was later absorbed into the Sutlej Valley Canals. These were followed by the Lower Chenab Canal which created the Lyallpur Colony. It is one of the largest and most successful and remunerative canals in India and irrigates 2½ million acres annually.

1. Sir Bernard Darley, *op. cit.*, p. 157.

(e) The next stage was the construction of Famine Protective Works. After the great famine of 1877-78, it was decided to set apart a sum of Rs. 150 lakhs known as the Famine Relief Insurance Fund. Part of this was to be utilized for famine relief when necessity arose and one-half was allotted for the construction of railways and canals. Later, the whole amount was available for irrigation works. The idea was to construct works in order to protect the country from famines. Under this scheme the Betwa Canal was constructed in the Central Provinces with two storage reservoirs. Moreover, Rushikulya project was undertaken in Madras and several important storage schemes were inaugurated in Bombay, Deccan, e.g., Nira and Periyar Canal systems fed by lakes held by massive masonry dams. Furthermore, in Sind, two important works were undertaken, the Jamrao and Western Nara Canals taken from the left bank of the Indus at Rohri.

(f) Indian Irrigation Commission, 1901-03. The appointment of this commission was the result of the success of productive and protective works undertaken during the second half of the 19th century. The Commission reported in 1903 and laid down a definite policy regarding "the selection, financing and maintenance of canal works." As a result a large number of new works were undertaken between 1905 and the outbreak of the Great War in 1914. The most important of these was the Triple Canal Project in the Punjab which linked up the Jhelum, Upper Chenab and Ravi rivers and led to the construction of the Upper Jhelum, Upper Chenab and Lower Bari Doab Canals. During this period, work on Lower Jhelum Canal (started in 1897) was also completed. Most of the other works constructed following the recommendations of the Irrigation Commission, were famine protective works, in the hilly tracts of the Central Provinces, Bombay, Deccan and Bundelkand. In 1914, the Upper Swat Canal was opened in the N.-W. F. Province. Another canal completed during this period was Triveni Canal in Bihar.

(g) Post-War (1914-18) Developments. After the inauguration of the Reforms of 1919, irrigation became a (reserved) provincial subject. The provincial governments now possess much larger initiative in the construction of canals. They have to obtain the sanction of the Government of India and of the Secretary of State only if the estimated cost is more than Rs. 50 lakhs. Loans can be taken not only for productive works but also for other works. Money can also be utilized from the Provincial Famine Insurance Grant when it is not required for famine relief.

Due to the post-war period of prosperity many new irrigation schemes were launched. Several important works have already been completed. Three of them deserve special mention : (i) The Sutlej Valley works in the Punjab, completed in 1932-33 are estimated to irrigate an area of 5 million acres. Their total cost up to the year of completion was Rs. 33.31 crores. (ii) The Sukkur Barrage and canals in Sind opened in 1932 are estimated to irrigate 5½ million acres. The cost of these was Rs. 24 crores. (iii) The Sarda River irrigation scheme irrigates part of Rohilkhand and Oudh in the United Provinces. This was opened in 1928 and is estimated to irrigate a million acres. Another work completed recently is Cauvery Mattur Project in Madras, which will irrigate 300,000 acres. The Nira Right Bank Canal Scheme with which is connected the Lloyd Dam is one of the biggest of its kind. The Damodar Canal in Bengal has been recently opened. In Northern India there is the Haveli Canal to utilize spare water in the Chenab river below its junction with Jhelum, and will command 1½ million acres. The Thal Project was proposed but has been postponed indefinitely for financial reasons.

The Agricultural Commission recommended a closer relation between the Agricultural and Irrigation Departments. They also recommended the creation of local advisory committees (like the railway advisory committees) to deal with complaints about matters connected with irrigation. Finally, they recommended that a Central Bureau of Irrigation should be established at Delhi. Such a Bureau was established in May 1931, as an essential adjunct to the Central Board of Revenue. "Its main objects are to ensure free exchange of information and experience between provincial irrigation officers, to co-ordinate researches in irrigation matters and disseminate results achieved."¹

24. Future Scope for Extension : The future scope for extension of irrigation does not lie in the construction of big projects. "The day of great irrigation schemes in India is now over," says Sir Bernard Darley, "and it will be necessary to turn more and more to the sub-soil water table as the source of supply when new lands have to be developed in order to meet the ever-increasing pressure on land as the population of India expands." In this connection possibilities of tube wells worked by water-generated electricity have great scope. Electric power generated at a canal fall on the Upper Bari Doab has been utilized for pumping water for a number of years. A bigger scheme in U.P. utilizes

1. See *Indian Year Book*, 1943-44, p. 313.

hydro-electric power, developed at the falls of the Ganges Canal, for the purpose of pumping water from tube wells. The electricity is being used for lighting and power purposes in the adjacent towns and landlords are being encouraged to sink tube wells to irrigate high class crops like sugarcane, wheat and cotton. Some tube wells have been installed by Government, each capable of irrigating 250 acres of wheat, and 150 acres of sugarcane a year. Two schemes have led to pumping water from low lying streams which could not have been utilized otherwise. The Mandi Hydro-Electric works of the Punjab also has possibilities of a similar kind.

25. Economic Benefits of Irrigation : There has been an enormous growth in the area irrigated by Government works. In 1878-79; such area was 10.5 million acres in British India, in 1938-39 it was 32.61 million acres. Most of this increase has been due to productive works, from 4.5 million acres in 1878-79 to 24.71 million acres in 1938-39. The total length of the main and branch line canals and distributaries in operation in 1938-39 was 74,341 miles and the estimated value of crops supplied with water by Government works was Rs. 109.35 crores.

By 1938-39 the total capital invested in Government works including those under construction had amounted to Rs. 152.80 crores (Rs. 42.2 crores in 1900-1). The net return to Government on this capital for that year was 5.89 per cent in spite of the fact that Rs. 38.79 crores had been spent on unproductive works which yielded less than one per cent. In the case of productive Punjab works, the dividend was as high as 13.65 per cent, while Deccan works yielded from 1 to 2 per cent and those in the United Provinces 6.38 per cent. It should be remembered that some of the new works have not yet begun to yield returns to their maximum capacity as they would do in the future.

“ But the benefits of irrigation,” in the words of Sir Bernard Darley, “ cannot be measured only by Government receipts nor indeed by the area irrigated. India has an ever-growing population which must be fed ; the time is not far off when every available acre will be cultivated and still more land will be required to raise food for the multitude. The only remedy for this desperate situation will be to increase the yield from the land already under cultivation. Much has already been done in this direction with the help of canal irrigation ; the cheaper classes of grain, more particularly millets and pulses, have given place to good rice and wheat, and the diet of the people has improved accordingly. The yields also have been increased enormously with the introduction

of improved seed by the Agricultural Department. Much, however, remains to be done and it is safe to say that with better seed and more efficient cultivation the yield from crops in India could be increased by from 30 to 50 per cent according to the locality. Thus as the pressure of the population on land increases, the value of those great irrigation works, constructed in the past, will become more and more apparent. In the meantime, they have banished the grim spectre of famine and brought peace, prosperity and a higher standard of living to the whole country."¹

26. Dangers of Irrigation : Construction of large irrigation projects has not proved an unmixed blessing. Water-logging and salt effervescence in certain areas have led to deterioration of the soil and creation of unhealthy surroundings. In the Punjab² and Bombay, for instance, a good deal of land has become unfit for cultivation due to this reason. "Water-logging may be defined," says Prof. Brij Narain, "as the rise in the level of sub-soil water which renders land unfit for cultivation. The approach of the danger is marked by certain well-known stages :

(i) For one or two years *barani* crops are unusually successful, and there is a spontaneous growth of the rich crop *maina*.

(ii) In the third year patches of *kallar* begin to appear on the affected fields and seed does not germinate on these patches.

(iii) Yield begins to diminish, and the patches extend till they cover the whole field.

(iv) Depression in close proximity to the canal remain permanently damp and have water of a rusty colour.

(v) The spring level rises and comes closer up to the surface of the land.

(vi) Houses in the *abadi* begin to crumble to dust and eventually collapse.

(vii) An obnoxious odour is emitted by *abadis* and the drinking water tastes raw."³

What happens actually is that the salts of the soil come up to the surface with the rise of the sub-soil water level. The canals act in two ways in causing this phenomenon. They interest drainage line and cause rain or flood water to be held up.

1. *Economic Problems of Modern India*, Vol. I, p. 167.

2. As far back as 1926-27 in the Punjab, 126,000 acres had already been thrown out of cultivation and 700,000 acres were in danger of water-logging.

3. Brij Narain, *Indian Economic Life*, p. 383.

Secondly, they cause their own water to fall vertically until it reaches the spring level. "If the sub-soil outflow is not enough to balance the inflow, the spring level rises being drawn up by capillary attraction and all the salts of the earth come to surface and make the land unfit for crops."¹

The remedies usually suggested for this phenomenon are : (a) Pumping² out of water by tube wells and other methods of drainage. (b) Proofing of canal beds by concrete. But this does not affect the channels. (c) Opening out of closed and obstructed drainage. But this may involve the remarking of the whole canal. (d) Replacing canal irrigation by well irrigation. This would be very expensive, though the expense may be worth-while where the danger is imminent. (e) Prevention of over-irrigation, by changing the system of supply, to force the cultivator to economize water. The present system of supply leads to over-irrigation. It is estimated that from 30 to 50 per cent excess water is applied to wheat in Northern India. Charge for water is made not according to the water used but according to crops matured. Moreover, the supply is uncertain and the cultivator naturally tries to irrigate as heavily as he can. The sale of water by volume has not been tried but it is held that it would make the cultivator economize water.

27. Water Rates : A few words may be said about the fixing of water rates by the Government. The maximum that the Government can charge is indicated by the net benefit derived by the cultivator from canal water. This will mean the appropriation of the whole of the increase in the return from land due to the use of canal water. This would be impossible since some of the lands in the colonies would yield practically nothing without canal water. The minimum is represented by the cost of supply to the Government including interest on capital sunk in canals, and their maintenance charges. This will come to much lower than the present charge.

Charging according to cost of service is indefensible on various grounds : It will give benefit of canal construction to a section of

1. Brij Narain, *Indian Economic Life*, p 383.

2. A scheme has recently been prepared by Punjab engineers for pumping 4,100 cusecs from the Ravi-Jhelum canal tract in the Punjab. By means of hydro-electric power to be generated at a 80 ft. fall from the Jhelum canal, 2,500 tube wells of 2 cusecs each will be operated in pumping two-thirds of percolation water back into the canals. This will not only lower the water table and save hundreds of thousands of acres from deterioration due to alkalinity, but also expand irrigation by some 750,000 acres. (*Indian Information*, December 1, 1944, p. 679).

the people (about 1/3 of the total population in the Punjab for instance) while the water of rivers is the property of the whole community. The canal construction in the Punjab was financed partly from the surplus revenue of the province and partly out of borrowed money advanced on the security of the general revenues. Part of the money came from the sale of lands irrigated by the canals. Some of the benefits, therefore, must be shared by the people as a whole. Some people present the analogy of the railways and draw attention to the low profits made by them on capital (4 to 5 per cent of N.-W.R.) compared with high profits from canals (about 15 cent made by the Punjab Government). But this analogy is not admissible, since the benefits from the railways are enjoyed not by one fortunate section of the people but the whole community. Canals, therefore, must contribute to the general revenues. In other words a part of the water rates must be in the nature of a tax. The rate, however, should be fixed fairly light in order not to be too burdensome on a class of people most of whom are in poor circumstances.¹

28 The Agriculturist : Finally, we come to the agriculturist² himself—the man behind the plough. What is this personal equipment—physical, mental and moral? Seemingly contradictory views have been expressed by authorities in this connection. Dr. Voelker in his able report on the agricultural practice in India admired “the careful husbandry combined with hard labour, perseverance and fertility of resources of the Indian agriculturist.” The Agricultural Commission in 1928 admitted that “in the conditions in which the ordinary cultivator works, agricultural experts have found it no easy matter to suggest improvements.”³ These views seem to suggest that it is the environment rather than the cultivator who is at fault. On the other hand, Calvert quotes an Irish writer : “The wealth of a nation lies not in the material resources at its command, but in the energy and initiative and moral fitness of its people ; without these attributes no country can become permanently prosperous ; with them, no unfavourable circumstance can long prove an insuperable obstacle.”⁴ The implication is that people of the Punjab (or India) are poor because they lack these qualities (and not because of any physical

1. For a fuller discussion of the subject see Report of the Punjab Abiana Committee (1933) and Indian Taxation Inquiry Committee (1922).

2. For distinction between the absentee landlord, peasant farmer, tenant cultivator and agricultural labourer and their significance from the point of view of agricultural productivity, see chapter on Land Tenures.

3. Report, p. 14.

4. Calvert, op cit., p. 47.

obstructions). Mr. Keatinge recognizes that the Indian cultivator "may be strong, industrious and intelligent," but adds that "If he is to do good work he must be prompted by an adequate incentive and sustained by adequate food."

The truth of the matter is that where circumstances are favourable, the Indian peasant does show considerable native intelligence, industry and resourcefulness. But where rainfall is precarious or system of land tenure is oppressive, these qualities get undermined. In a general way, however, it is true that our rural masses are far below the standard of physical, mental and moral development which would be regarded as minimum in a more advanced country. The causes of this backwardness are partly historical and political, partly social and partly climatic. Each set of causes is inextricably mingled with the others. The emphasis laid on a particular cause or causes is determined mostly by the political creed of the writer concerned. For instance, the Indian nationalist tends to over-emphasize the political factor as it is at present. The apologist of the British administration, on the other hand, puts the whole blame either on the pre-British administrations or on the social and climatic factors. Confusion arises from the fact that there is a substantial element of truth in each of these views. The scientific inquirer must try to be as objective as possible and give due weight to each of the factors of the situation.

Whatever the causes that have brought about the present state of affairs, no one, however, can deny the facts as they are. There is no denying of the fact that the Indian cultivator is inferior in physical health and energy to his counterpart, for instance, in Great Britain and America, even in the European countries. He is subject to a host of endemic and epidemic diseases. Our villages are ravaged by major diseases like malaria, plague, cholera, dysentery, tuberculosis, *kala azar* and hook-worm. These diseases not only cause high rate of mortality, with all its wasteful consequences, but undermine the physical efficiency of those who survive the attack. People "chronically subject to disease, moreover, become lethargic, listless and apathetic. The solution of this problem implies both preventive and curative measures. The Public Health and the Medical Departments of the Government are doing some work in this connection, but most of their benefits are showered upon the urban areas. In view of their numbers and the contributions they make to the revenues of the State, the rural masses receive insignificant help. A large scale publicity campaign is necessary to awaken the people to the importance of public health measures.

In the second place, the chronic illiteracy of the rural masses can hardly be denied. When the literacy in the country is only 8 per cent and literate persons are mostly concentrated in towns, the share of the literates falling to the villages can be easily imagined. Add to this the fact that our educated classes are the product of a universally condemned system of education, which produces book-worms rather than practical men of the world. As regards agricultural education, after half a century of effort, how many practical farmers have been produced by our agricultural colleges? Practically none. A radical change in our system of education is immediately called for, so that it should produce practical and enlightened men of the world. From the point of view of agricultural progress we require peasants with a good minimum of general education and also technical education and training to make good farmers. But such farmers cannot be content with the tiny holdings that are available for them in the villages. Moreover, our villages must be made more attractive and progressive to induce educated men to settle there. This shows how the whole structure of our economic and social life requires a simultaneous reform if not a radical overhauling.

With better physical health and education of the right kind, the whole outlook of the villager will change. At present he is condemned as ignorant, superstitious, fatalistic, improvident and extravagant. It is said that he lacks initiative and tends to stick to his old ways of life and work; that he has no desire to improve his standard of living. If he gets larger income due to some chance, he reacts by being extravagant in expenditure on social ceremonies or on litigation. These accusations are true, though not always without qualification. But all defects are curable by persuasion, propaganda and education on the right lines. Some work has been done by the various Government Departments, Agricultural, Co-operative, and Rural Reconstruction. But a well-planned, comprehensive and nation-wide effort is necessary to bring any substantial and permanent results.

29. Second String to His Bow: When income from agriculture is so meagre and so uncertain, and agricultural operations do not occupy the cultivator all the months of the year, there is necessity and opportunity of creating alternative sources of income. In the Punjab and, to a lesser extent elsewhere, the army offers an outlet for the surplus population. In agricultural areas near the industrial towns organized industry draws labour from the villages. But the villager can augment his income without leaving his village and his normal occupation. This he can do by following a number of subsidiary occupations closely

related to agriculture. Such occupations are : Cotton spinning and weaving, bee-keeping, sericulture, lac culture, poultry breeding, sheep rearing, cattle breeding, dairy farming, basket making, fruit farming, oil extraction from oil-seeds and oil-fruits, manufacture of flour, starch and glucose ; making of gur and canning of fruit, etc.

To take one example of what can be done in this connection, mention may be made of the remarkable results achieved by Dr. Hatch. "He has introduced at Martendum a number of subsidiary industries such as basket and mat making ; thread and coir-rope making ; hand weaving (including all processes of preparing, sizing, dying, and bleaching yarn) ; preparation of tamarind ; growing pine apples and cashewnuts ; making palmayra gur and umbrellas ; manufacturing *kuft-gari* links and pendants, etc. For youngsters handicrafts have been started which involve less strain, such as making of Christmas cards and fans from palmayra leaves ; preparation of lacquered articles such as candle sticks, boxes, games and toys ; fret work and net making for tennis and other games."¹ Good financial results have been obtained from these activities.

Subsidiary occupations can help, but they cannot be regarded as a final remedy for the growing pressure of population on land. In the words of the Royal Commission on Agriculture, "the contributions which rural industries can make in reducing the heavy pressure on the land is infinitesimal, and in the nature of things they cannot, as a rule, hope for ever to survive the increasing competition of organized machinery. . . To put it briefly, the possibilities of improving the conditions of the rural population by the establishment of rural industries are extremely limited."²

The most effective remedy, therefore, is planned industrialization of the country.

1. Nanavati and Anjaria, op. cit., p. 374.

2. Report, p. 188.

CHAPTER VI

MARKETING OF AGRICULTURAL PRODUCE

1. Introduction : In a self-sufficient village economy, as it prevailed in India a hundred years ago, the problem of marketing was not so important as it is today. Then, all that was produced was consumed within the village or in the immediate neighbourhood. Now the produce of the village finds consumers in distant places, not only within the country itself, but also in the outside world. With the sale proceeds of the surplus produce of the village—of foodgrains, cotton, sugarcane, oil-seeds, etc.—are purchased goods produced in distant parts of the country and the world. Even now, however, most of the food requirements of the village are met from within. The surplus available, however, is greater in the case of non-food or commercial crops like cotton, jute and oil-seeds. These are converted into money, if not for other purposes at least to make land revenue payment to the Government.

The economic position of the peasant thus does not merely depend upon the total amount of production that he can secure from his land, but also on the money value of the surplus that he has to sell in the market. He has little control over the prices which prevail, because they are determined by the broad factors of supply and demand operating in the country and in many cases in the world at large. His costs of production also may be regarded as more or less fixed. Even then his sale proceeds can be increased by better handling of the produce and reducing to the minimum the portion going to the various intermediaries between him and the ultimate consumer of his produce. This can be done by saving him from the consequences of the various handicaps from which the farmer suffers either because of the inherent character of agriculture as a profession or from the peculiar circumstances under which he works in India. Agriculturists in all countries are handicapped in certain respects. The seasonal and scattered character of their operations, the great role that nature plays in making it a success, the inelasticity of demand for agricultural products, raise many difficulties of organization and make adjustments between supply and demand uncertain. In addition to these, the Indian peasant is handicapped by his illiteracy, ignorance, conservatism, small unit of cultivation, lack of proper financial

aid, defective means of communication and transport and a host of other individual and social disabilities. In this chapter we shall study the nature of some of the important handicaps from which our agriculturist suffers as a seller of his produce and then take note of the various remedies either suggested from time to time or actually adopted to improve his position. To quote the Agricultural Commission, "until he (the peasant) realizes that as a seller of produce, he must study the art of sale, either as individual or through combination with other producers, it is inevitable that he should come off second best in his contest with the highly specialized knowledge, and the vastly superior resources of those who purchase his produce."¹

2. Essentials of Good Marketing: In order that the produce may be sold to the best advantage of the producer, several conditions must be present. In the first place, the quality of the produce should be good. Agricultural commodities cannot be produced in a standardized form as manufactures can be. But quality can be ensured to some extent by using the best available seed; by adopting efficient and clean methods of cultivating and harvesting it by grading and standardizing the product and by storing it in good storage places to prevent deterioration. This is the first essential of good marketing. If good and bad qualities of the product are mixed, as has been the case in India, the reputation of the whole produce suffers and price obtained is of the standard of the worse rather than of the better quality.

The second essential of good marketing is the staying power of the seller. If he is hard pressed to sell all his produce immediately after the harvest, the selling pressure will depress prices for all the agriculturists and will reduce their sale proceeds. It is necessary, therefore, that either the peasant should have enough reserve of his own to meet his requirements—of land revenue and other immediate payments due from him—or arrangements should exist for him to get money on credit at reasonable rates of interest. If the getting of credit throws him into the clutches of a rapacious money-lender—which is too often the case in India—the remedy may be worse than the disease.

The third essential of good marketing is existence of good means of communication and transport. The cultivator-seller should be in touch with the movements of prices in the markets to enable him to take advantage of favourable prices. The villager should have convenient access to the market. The roads

1. Report, Agricultural Commission, p. 382.

should be well planned and well kept or there may be waterways facilities. If the transport facilities are absent, the peasant would prefer selling to itinerant purchasers or village banias—as is mostly the case in India—instead of carting his produce to the market for better returns.

Finally, there should be well conducted markets at convenient distances from the producing villages. It is necessary that these markets should be properly regulated and be under impartial supervision and control. If the market practices are arbitrary, the cultivator will lose confidence in them and would prefer to sell his produce in his own village on comparatively unfavourable¹ terms. Proper access to markets also implies the absence of transit charges like octroi, terminal taxes, etc., which serve as discouragements to the cultivator-seller. Marketing in India lacks almost all these essentials in varying degrees.

3 The Present System—Produce Sold in Villages: It is difficult to say what proportion of the total produce on the average is sold by the Indian cultivator and what is kept for his household requirements. Obviously, the proportion will differ in different localities and with different agriculturists according to their economic strength and the nature of the commodity concerned. The “surplus” sold will be greater in the case of commercial crops than the food crops. The more prosperous cultivators may sell a larger proportion of their total produce in the end, though they may sell a small proportion of their total surplus at harvest time on account of their greater power to wait. In Bengal it has been estimated that normally 54 per cent of the total rice crop is retained by the producer and 46 per cent is sold.² The average cultivator, one may say, produces mostly for his family needs and sells only what is necessary to meet his monetary obligations to the Government and the money-lender and for sundry household expenses. Even in a prosperous Punjab district like Lyallpur, 23·9 per cent of the cultivators make no sales.³

There is, however, more definite information as to the proportion of the produce sold in the village and that taken to the market by the cultivator. One investigator⁴ has estimated that

1. “It has, we think, been established that when the cultivator is in a position to dispose of his produce in a market, however limited his scope and badly organized its character, he obtains a much better price for it, when the cost of transport is taken into account, than when he disposes of it in his own village.” Agricultural Commission Report, p. 388.

2. *Marketing of Rice in India and Burma*, p. 492.

3. Mukerjee, *Economic Problems of Modern India*, Vol. I, p. 299.

4. Hussain, *Marketing of Agricultural Produce in Northern India*, p. 96.

60 per cent of wheat, 35 per cent of cotton and 70 per cent of oil-seeds are sold in the villages or village markets¹ in the Punjab. For the United Provinces the respective figures are 80 per cent wheat, 40 per cent cotton and 75 per cent oil-seeds. In Bihar, Orissa and Bengal 85 per cent of oil-seeds and 90 per cent of jute is sold in the villages. "The proportion of produce sold in the markets diminishes as cultivators are debt-ridden or carry on subsistence farming in tiny holdings. In Attock district of the Punjab 98·6 per cent of the cultivators dispose of their surplus wheat to local banias who happen to be their *sahukars* also."² The proportion of produce sold in the outside markets also diminishes where the means of communication and transport are not adequately developed.

The produce that is sold in the village (apart from the portion that is directly sold to non-agriculturist consumers living in the same village) is sold to various kinds of middlemen through whom it ultimately reaches the larger markets and distant consuming centres. These middlemen may appear in the form of the village bania (who may be the village shop-keeper and also the money-lender to the peasant) or various itinerant³ "beoparis" either purchasing on their own account or as agents of some *arhtiya* in the secondary town market. But where the money-lender has his grip over the peasant, the latter is not a free agent to dispose of his produce as he likes. The debtor usually has to sell it to his creditor on the latter's terms. In any case, when the produce is sold in the village, as the Agricultural Commission pointed out, the cultivator obtains much less favourable terms than he would do if he carted it to the market, however badly organized the latter may be. But to take it to the market he requires means of carting and good roads.

4. Transportation to Markets: One of the reasons why only a small proportion of the produce is taken by the cultivator to the market is the bad condition of roads. This also accounts for the variety of itinerant grain dealers and carriers in India. "Communications from the field to the village and from village

1. Village markets are of two types: (i) Periodical markets in rural areas. These can be bi-weekly or fortnightly markets held in the countryside where cultivators sell small quantities of agricultural produce and buy cloth; kerosene oil, etc. Here small itinerant dealers are able to collect agricultural produce. (ii) Big fairs held periodically associated with certain religious celebrations, e.g., fairs held in Hardwar, Allahbad, etc. Here also considerable sales of produce take place.

2. Mukerjee, op. cit., p. 299.

3. Itinerant middlemen go under different names in the various provinces: Beoparis in the Punjab, Banjaras in C.P., etc.

to the mandi are often extremely poor and defective. Bad roads, lanes and tracks connecting villages with the markets not only add to the cost of transportation and aggravate the strain on bullocks and other pack animals, but also lead to the multiplication of small dealers and intermediaries. They also restrict markets by hindering cheap and rapid movement of agricultural produce."¹ The difficulties are greater in hill districts where the cultivator is often at the mercy of the grain dealer who alone can command enough animal power to undertake the transport of produce.

As regards means of conveyance, the produce is carried to the market in bullock or camel carts, on pack animals, such as camels, ponies, buffaloes and donkeys or in head loads. Different methods are used according to the circumstances of different localities. River transport has declined in the Punjab, U.P. and Bihar, but is still of considerable importance in Northern and Eastern Bengal and Assam as well as in the coastal plains of South India. In Northern India, the cart and pack animals are predominantly used. It is estimated that at Amritsar nearly 50 per cent of cultivators and village beoparis use carts and 50 per cent use donkeys, while at Hapur 75 per cent use carts and 25 per cent donkeys.² Motor transport has also become important in some localities. "Motor vans loaded with assortments of fruits come from Srinagar and Rawalpindi as far as Cawnpore. Between Cawnpore and Calcutta there is also motor lorry goods traffic."³ This, however, concerns inter-provincial transport. We are talking of carriage from the village to the nearest markets.

5. Sale in the Market : Such markets may be organized or unorganized. The unorganized markets are more or less of a primitive character. There are no set customs or rules of procedure as regards sales and settlement of accounts. There are no permanent functionaries. They are small mandis in which though the *arhtiya* may be found but he is hardly a wholesale dealer. He is rather the primary distributor who simply passes on the produce to the bigger *arhtiya* in the larger mandi. He is often financed by the latter.

Organized markets have developed in localities where staple products like wheat, cotton, sugarcane and jute are largely grown. In such places specialization in crops has taken place and choice of crops is governed less by custom and household needs and

1. Mukerjee, *Economic Problems of Modern India*, Vol. I, p. 295.

2. *Ibid.*, p. 296.

3. *Ibid.*, p. 297.

more by the prevailing prices in the distant markets. This is especially the case in areas where transport and irrigation facilities have broken up the self-sufficiency of the village. "In these bigger mandis the wholesale *arhtiya* makes his appearance and facilitates grain transactions. He often supplies capital to the village bania or beopari on the stipulation that the produce of the neighbourhood would reach him regularly at harvest time. He also acts as a commission agent of shroffs and big exporting firms in the cities, thus forming an indispensable link in the chain of middlemen between the cultivator and the shipper-buyer."¹

The wholesale *arhtiya* in the market is also known as the *pakka arhtiya*. He should be distinguished from the *kachha arhtiya*. The *kachha arhtiya* acts as a commission agent for all sellers in the country-side including cultivators, village banias and beoparis and other itinerant carriers. The small mandi-dealers also often dispose of their produce through him.² The *Pakka arhtiya* never deals directly with the cultivator-seller. In addition to the *arhtiyas* there are other intermediaries called the "dalals" (brokers). "Dalals are found in all the markets. Sometimes one set acts for the sellers and the other for the buyers; but in the majority of the markets brokers operate in the interests of buyers only. It is not necessary to employ a broker but buyers generally do so to save themselves, time and bother. His real business is to put buyer and seller in touch."³

The transactions in the market take place in the following manner: "The beopari or the seller entrusts his goods to an *arhtiya* or 'dalal' dealing on behalf of a purchaser. Both the *arhtiyas* put their hands under a piece of cloth, towel, or handkerchief and start catching one another's fingers under the same. The bargaining is usually in terms of annas, as there is generally no dispute about the rupee part of the price. The negotiations go on in this secret manner till they are called off owing to failure in arriving at an agreement, or a price is settled, and then the seller is informed of the price agreed upon."⁴ This is the usual practice. In some cases produce is sold by open auction. In a very few mandis there are also co-operative shops which take the place of the *kachha arhtiya*. These have been tried in the Lyallpur mandi, but did not prove a success due to various reasons to be noted later.

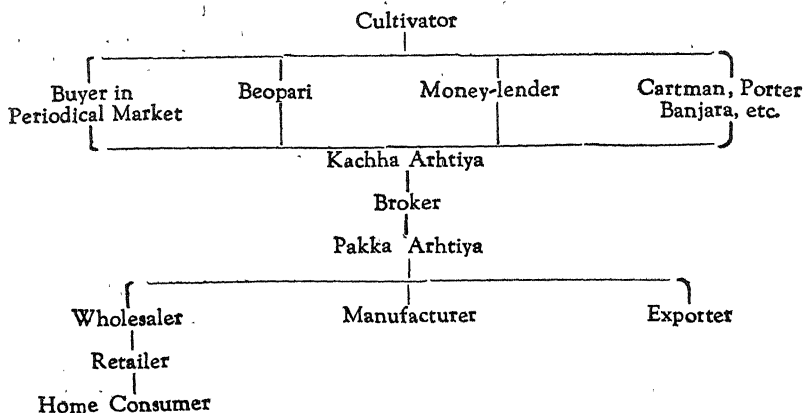
1. Mukerjee, *Economic Problem of Moderns India*, p. 302.

2. *Ibid.*, p. 308.

3. Hussain, *op. cit.*, p. 103.

4. *Ibid.*

As soon as the deal is effected, the *kachha arhtiya* pays cash to the seller, though usually he does not get the purchase price from the buyer (*pakka arhtiya*) at once. Through the *arhtiyas* the produce is passed on to the retailers for home consumption, to the mills for manufacturing purposes and to the exporters for external trade.



The above diagram illustrates the chain of middlemen between the village producer on the one hand and the ultimate consumer of his produce on the other. The exporter may either buy from the *pakka arhtiya* as shown in the diagram or he may buy through an agent from the cultivator directly or from one of the intermediaries between him and the *kachha arhtiya*.

6. Defects of the Present System : The main defects of the present system of marketing in India are : (a) Indifferent quality of the produce sold. (b) Inadequate facilities of transport and communication. (c) Multiplicity of intermediaries. (d) Lack of storage and warehousing facilities. (e) Fraudulent practices in the markets. We propose now to discuss each of these defects and also to take note of the various steps that have been taken by the Government to remedy each or some of them.

7. Indifferent Quality of the Produce : The Indian produce does not enjoy good reputation in the foreign markets, though things have improved in recent years. The low quality of the produce is due to a number of causes : (i) Indifferently selected seed. (ii) Natural calamities affecting the crops while growing, like too much or too little rains, pests and diseases, etc. (iii) Primitive methods of harvesting, which lead to mixing of

dirt and stones with the grains. (iv) Lack of proper storage facilities in the village, which results in deterioration through exposure to rain, dirt and rats. (v) Deliberate deterioration at the various stages of marketing by damping, mixing, etc. (vi) Lack of standardization and grading of produce which does not distinguish between good, bad and indifferent qualities.

The agricultural departments have done useful work in introducing improved varieties of seed, though a very large field has yet to be covered in this connection. The percentage of the total area under the various crops which is sown with improved seed varies from about 3 per cent in the case of groundnuts to about 40 per cent in the case of sugarcane. Taking all the crops together, it is still about 5 per cent of the total area sown. Some work also has been done to tackle the problem of pests and diseases. The methods of harvesting, however, remain as defective as ever and unless mechanization is introduced (which is impracticable under the present conditions) they will remain the same. Storage facilities can be introduced either by individual or co-operative effort, but little has been done so far. The trouble is that the cultivator cannot keep produce on his hand for a long time, due to his financial weakness and hence troubling about constructing elaborate means of storage does not seem worthwhile to him. Conscious deterioration of quality is partly due to pure dishonesty, but partly because the standard of quality for exports is fixed low and better quality produce does not command proportionately better prices. The seller, therefore, reduces better quality products to the given standard. In the case of cotton, the Government has taken definite steps to prevent deterioration of quality in certain cotton-growing areas. In 1923, the Cotton Transport Act was passed which enabled any local Government to notify definite areas of cotton for protection and to prevent the importation of cotton from outside the area except under licence. The object was to prevent inferior outside cotton to get mixed with the superior variety of the area protected. The Act has produced good results. To discourage adulteration, another Act was passed in 1925. This was the Cotton Ginning and Pressing Factories Act. According to this Act, the gins and presses have to mark their bales distinctively in serial number so that any fault, if discovered, can be traced back. Legislation on similar lines—suited to circumstance of the commodities in each case—should go a long way to prevent deterioration of other agricultural products. Measures against adulteration of food do exist in various local areas, but they have not proved very effective; moreover, they only aim at protecting the home consumer.

As regards grading and standardization, definite work is being done since the passing of the "Agricultural Produce (Grading and Marking) Act" of 1937. Under this Act, licences are issued to reliable merchants authorizing them to grade agricultural produce under the close supervision of the marketing staff appointed by the Government. Such produce is then placed in the market under the label and seal of "AGMARK." At first grapes, oranges, tobacco, eggs, hides and skins were graded in this way. Later on other commodities like ghee, atta, rice, apples and lac were added to the list and more can be added as need arises. During 1942 alone, more than Rs. 241 lakhs worth of produce was sold under the "AGMARK" as compared with Rs. 146 lakhs in 1941.¹

8. Transport Facilities and Marketing Intelligence : "In spite of the developments of the last half century," wrote the Royal Agricultural Commission, "India must still be regarded as a backward country in respect both of railways and roads."² They are only 2'2 miles of railway line per 100 square miles of area of India as compared with 22'7, 19'9, 12'3, 9'5 and 8'3 miles, respectively, in Great Britain, Germany, France, Japan and U.S.A. Moreover, the freight rates in India are high, which definitely discourage their use for transportation of agricultural produce, which usually has small value with a large bulk. A more sympathetic freight³ policy, cold storage facilities, introduction of standard containers for small parcels and packages, can considerably enhance their utility.

As regards roads also, India is backward as compared with other countries. There are only 18 miles of roads per 100 square miles in India. Compare this with 430 in Japan, 200 in Great Britain, 190 in France, 120 in Germany and 100 miles in U.S.A. The unmetalled roads and village tracks are full of dust in the summer and are transformed into pools of muddy water and swamps in the rainy season. No wonder the villager prefers selling his produce in the village. Lack of development of roads have been mostly due to lack of funds. A change of policy is necessary. So far roads have been developed out of revenues only. Loans should be raised by the Provincial Governments for this purpose. A proper co-ordination of road and railway

1. *Indian Year Book*, 1943-44, p. 298.

2. Report, p. 369.

3. For instance, concession from the N.-W.R. have been secured by the Punjab Marketing Section of the Agricultural Development for Malta oranges, dispatched from grading stations to certain markets within the province and also in Sind.

services is necessary to avoid wasteful competition. As regards waterways, where they can be revived or improved, it should be done provided they will result in appreciably reducing cost of transport, or where no alternative means of transport are available.

As regards marketing intelligence, daily market prices of various commodities are broadcast from the various All-India Radio stations for the information of the people, but the average villager still depends upon hearsay for his information in this connection. Advance in this connection can be made only with the advancement of general education and better development of the means of communication.

9. Multiplicity of Intermediaries: From the diagram on page 138 it will appear, that here is a large number of intermediaries between the cultivator and the consumer of his produce. To take one particular instance of this chain, we find the following links:—

	Between the cultivator and the consumer are :	
1	2	3
Beopari—Kachha Arhtiya—Dalal—Pakka Arhtiya—Wholesaler—		5
	6	
	Retailer	

There may be even more links in practice. Each of them gets some money as his reward. Are these all indispensable? If some of these links could be eliminated, the marketing expenses could be reduced both to benefit the producer and the consumer. Some of them are clearly superfluous, e.g., the dalal. If the cultivator takes the produce to the market himself the beopari can also be eliminated. The kachha arhtiya can be displaced by the co-operative shop but cannot be dispensed with. The pakka arhtiya and the wholesaler even now are frequently one person. By marketing through the village co-operative sales society, the consumer may be approached directly. But such reforms should be introduced with care. The Agricultural Commission sounded a note of warning in this connection: "Public opinion is invariably watchful and is often suspicious of the middleman... It is clear, however, that the public opinion is not fully informed on the costs and risks incidental to the business of distribution in modern conditions. We depreciate easy generalities suggesting that every ill from which the cultivator suffers is traceable to the existence of hordes of rapacious and unnecessary middlemen. Such statements disturb confidence, while distracting attention from faults in the system of marketing

which are capable of being remedied or removed.”¹ According to the Commission, “bad communications and chaotic conditions of marketing encourage a superfluity of middlemen. . . and the most effective means of removing unnecessary middlemen are the provision of good roads and the establishment of a sufficient number of well-regulated markets easy of access to the cultivator.”²

According to another authority, “in the present unorganized system of credit and marketing the itinerant beopari is a necessity, and he should not be condemned off hand, just like the village Mahajan, unless and until new and better marketing methods are brought to the door of every peasant.”³ What are these new and better marketing methods?⁴ Co-operative marketing is the most hopeful and useful of all. The problem of Co-operative Marketing we shall consider presently.

10. Storage and Warehousing Facilities : Due to the lack of financial reserves the cultivator sells his produce within a month or so of harvesting it. The only produce that he stores for any length of time is what he keeps for his family consumption or for seed. He, therefore, does not think worth his while undertaking expenditure on expensive storage structures. He stores grain largely in huge earthen containers, in pots and sacks or underground in *khattis* or pits where water level is high. Underground storage exposes the produce to white ants, rats and dampness. In larger markets, agricultural produce is stored in *kothas* and *khattis*. Such produce may be sold several times before it is finally taken out. Against it (in larger mandis) advances are offered by shroffs and joint stock banks. But even in large markets grain is not stored for longer than about eight months. To hold stock for longer periods, the means of storage should be better than the *khattis* and the *kothas*. In that case the practice of getting advances from the banks against the security of stored produce

1. Report, p. 383.

2. *Ibid.*, p. 383-84.

3. Mukerjee, op. cit., p. 306.

4. Dr. Mukerjee forecasts the following development in this connection : “No doubt with better roads and modes of transport and improved organization, there will be fewer middlemen than at present who would appropriate a portion of the meagre profit of the small holders. Thus the *arhtiya* will gradually supersede the village *beopari*, carrier or *bania*, and the *shroff* or the exporting firm will supersede the *arhtiya*, or again the cultivators themselves, by co-operative organization, may abolish, as they are doing in some countries in the West, the entire chain of middlemen, village buyers, brokers, *arhtiyas* as well as the urban *shroffs*, who are now indispensable in agricultural marketing.” *Ibid.*, p. 324.

will become more widely prevalent than it is now. It is necessary, therefore, to have properly constructed warehouses at the more important mandis and railway stations for such constructions. Government assistance and initiative are necessary. In the villages, godowns may be constructed by co-operative societies to give facilities for storage to the members and enable them to keep their produce safe, until the favourable time for selling. The co-operative society can combine the function of marketing finance with the provision of storage facilities.

11. Fraudulent Practices in the Markets : Another defect of the present system is the existence of a number of practices, even in well-organized markets, which defraud the cultivator-seller of a part of his sale price. Chief of such practices are : (i) the *arhtiya* and the *dalal* acting for both buyer and seller, (ii) settlement of price under cover, (iii) false weightments, and (iv) a variety of charges.

(i) *Some agents act for buyers and sellers both and are called kachha pakka arhtiyas.*¹ In some cases the same person acts as a *dalal*² for both parties, getting commission from both sides. Under such conditions, the interests of the cultivator are bound to suffer. The *mandi* agent naturally acts in the interest of the buyer, who belongs to his own class and with whom he has constant dealings, rather than in the interest of the cultivator who visits the *mandi* only once or twice a year.

(ii) *Settlement of price under cover.*—We have seen how the *arhtiyas* representing the buyer and the seller negotiate the price. The cultivator is kept in the dark until after the settlement of the price. Naturally, this does not inspire confidence in the peasant, especially when both the *arhtiyas* belong to the *mandi* and usually to the same community and class. Moreover, this method is open to abuses. Such practices should be declared illegal. Price should be settled openly.

(iii) *False weightments.*—There is a large variety of weights and measures prevalent in the country. In the same market sometimes two sets of weights are used, one for buying and another for selling. In 1913-14, a Weight and Measures Committee recommended standardization. The Agricultural Commission, while recognizing the difficulties of reform, due to diversity of local customs, recommended that an All-India inquiry should be made again and general principles laid down for the provincial governments to adhere to, to reform this evil. Introduction of standard

1- Hussain, op. cit., p. 104.

2. Ibid., p. 280.

measures is a reform which is urgently wanted and the provincial governments should take this matter in hand more thoroughly than hitherto has been done. "District Boards, local boards, village Panchayats, and municipalities may be required by legislation to provide standard weights as well as weighing facilities."¹ The various Marketing Acts establishing regulated markets (Berar, Bombay, Punjab, etc.) provide for the keeping and using only of standard weights and measures in such markets as we shall see presently. In 1928, the Central Provinces Government passed Weights and Measures of Capacities Act to secure standardization of weights and measures by notifying areas for the purposes of the Act. A similar Act came into force in the Bombay Presidency in 1935. A Standard of Weight Bill was passed by the Central Legislature in 1939. This will enable the provinces to introduce uniform weights and measures prescribed by the Act. This will certainly lead to more extensive and smoother marketing of the produce from which both the producer and the consumer (as well as the middlemen) are bound to derive benefit. In the large markets weigh-bridges should be established over which first the loaded and then unloaded cart of the cultivator may be passed, thus checking the weightment done by the market weighment. This will act as a check on the malpractices of the weighmen and will be a source of satisfaction to the cultivator-seller.

(iv) *Market Charges*.—One of the greatest scandals of present day marketing in India is the multiplicity of charges levied on the seller of the produce. The total amount of such charges for wheat is compared below provincewise :—

AVERAGE MERCHANDISING CHARGES ON² WHEAT IN
WHOLESALE ASSEMBLING MARKETS

Province	(Per 100 Rupees)						Total charge
	Total paid						
	By buyer			By seller			
	Rs.	a.	p.	Rs.	a.	p.	Rs. a. p.
Punjab :							
Canal colony	0	13	10	2	0	9	2 14 7
Non-canal colony	1	10	8	1	7	2	3 1 10
United Province ;							
Western	1	8	2	1	7	4	2 15 6
Central and Eastern :	1	2	8	3	4	8	4 7 4
Central Provinces ...	0	5	8	3	12	2	4 1 10
Bihar and Orissa : ...	1	8	9	1	15	9	3 8 6
Bombay: ...	2	7	1	1	11	11	4 3 0
Sind ...	1	1	6	3	1	0	4 2 6
Average for India .	1	5	3	2	5	7	3 10 10

1. Mukerjee, op. cit., p. 304.

2. Based on Appendix XXX, p. 405, of the Report on the Marketing of

Note the high amount of the charge and the fact that in almost every case the seller pays more than the buyer. The charge on the seller is especially high in the Central Provinces, the United Provinces—Eastern and Central markets—Sind and the Punjab Colony markets.

These charges are the sum total of a large number of items which are detailed in the following table. The figures refer to the Lyallpur Mandi in the Punjab.¹ To show how much saving could be effected by selling through the co-operative shop, figures are also given relating to charges made by such a shop² in the same mandi.

SELLERS EXPENSES IN THE LYALLPUR MANDI

(Per Rs. 100 of sale)

Items	Local shops		Co-operative ¹ Commission Shop, Ltd.
	Rs. a. p.		Rs. a. p.
1.—Commission	...	0 12 6	0 8 6
2.—Palledari (portorage)	...	0 3 9	0 3 9
3.—Total (weighment)	...	0 3 9	0 3 9
4.—Chungi (paid to buyer's servant)	...	0 1 3	0 1 3
5.—Brokerage (to buyer's dalal)	...	0 1 3	0 1 3
6.—Shagirdi (to arhatis' apprentice)	...	0 1 3	Nil
7.—Dharmao (Charity)	...	0 1 3	Nil
8.—Gaoshala (Charity)	...	0 0 3	0 0 3
9.—Changar (sundry payments in kind)	...	0 12 3	0 3 6
Total	...	<u>2 5 6</u>	<u>1 6 3</u>

By selling through the commission shop the seller can save Re. 0-15-3 per cent. Some of these charges are made for services done, while others are unreasonable impositions; for instance Nos. 4, 5, 6, 8 and many of the charges in No. 9. Why should the seller pay to the buyers' servant, his apprentice, his dalal and his charitable activities? The commission charged is

1. Hussain, op. cit., p 128.

2 & 3. The Co-operative Commission Shop started in 1919 undertakes business on behalf of members as well as non-members.

also 50 per cent higher than that of the co-operative shop.¹ It is necessary that superfluous charges be made illegal and other charges should be made uniform. Attempts have been made to achieve this object in the regulated markets as we shall see.

Mention may here also be made of another set of charges made from the seller, not in the market, but before he enters the market town. These are octroi duties, terminal taxes and tolls. According to the Wheat Report, these amount sometime to 4 or 5 per cent of the value of the produce and are generally paid by the cultivator. "In theory of course," says the report, "the octroi duty should be payable by the consumers in the town in the form of enhanced prices, but owing to the fact that they are in the first instance paid by the cultivator-seller, who has no alternative but to let the charges come altogether out of his pocket. Considering the fact that the amount of octroi collected in the course of the year by municipalities amounts to over Rs. 1'5 crores, the fairness of the incidence of this tax is a matter for serious investigation."²

The Wheat Report in fact contends that even the charges levied on the buyer in the first instance are shifted on to the seller by forces of competition, through reduction in price paid to him. "All octroi duties, terminal taxes, tolls, market charges and charities paid on the wheat between the cultivator and the consumer, are inevitably forced back (the upper limit of price being fixed already by competition) on to the cultivator, who is willy nilly compelled to pay for the upkeep of municipal roads and other amenities of the town through octroi and similar duties. He also pays by way of charities, in many cases for educating the urban children and for maintaining other charitable institutions from which he himself derives no direct benefit"³

1. The commission shops, however, have not proved such a success as one would expect. Their development is hampered by many difficulties. "They make little appeal to the small peasants, the majority of whom do not sell in the markets. The members are lukewarm in their support, and do not always use the co-operative agency for the sale of their goods. There are management troubles too; it is very hard to get reliable and experienced staff in the existing grades of salaries. Again, many growers and beoparis are either indebted to, or have accepted advances from, the arhtiyas; and quite often there are old-established relations between them. So the sellers from the country-side, as also the agents of the merchants in the "mandis," take their produce to the "arhtiyas" rather than the co-operative institutions. These factors combine against the commission shops doing greater business. Nevertheless their financial position seems to be sound, and sales are increasing steadily." Hussain, op. cit., p. 129.

2. Report, p. 175.

3. *Ibid.*, p. 288-89.

12. Regulated Markets : Mainly two great reforms are usually suggested to save the cultivator from the oppressions of the present system. One is the establishment, all over the country, of regulated markets on the Berar and Bombay model, and the other is the marketing of produce through the cultivator's own co-operative societies formed for this purpose. We shall now consider these two proposals, which have already to some extent been put into practice.

The first provision for the establishment of regulated markets was made by the Berar Cotton and Grain Market Law of 1897. It vested the management of such markets in an elected committee representing the people living in the area served by the various markets and of the local authorities. *Arhtiyas* were to be registered and the weighmen and dalals to be licensed; unlawful deductions were prohibited and only standard weights were to be used. Penalties were fixed for breach of law. The Agricultural Commission recommended establishment of similar markets for other areas and other commodities. Bombay modelled its Cotton Markets Act of 1927 on the Berar Law with some improvements. This latter was replaced following the enactment in 1930 of more comprehensive laws—the Bombay Agricultural Produce Markets Act. Similar laws have been passed in Hyderabad State (1930), Madras (1933), Central Provinces (1935), Mysore (1939), N.-W.F.P. (1939) and Punjab (1939). In essentials all these laws resemble each other. A few words may be said about the Punjab Agriculture Produce Markets Act.

The main features of this Act are as follows :—

(a) A Market Committee will be set up in each market area to ensure honest dealings between buyers and sellers and to generally administer the market. The Committee will represent the various interests—the growers, commission agents, traders, etc. Members will “be selected by the Government from among the prescribed panel of names submitted by the non-official members of the district board of the district in which the market area is situated and by the traders in the market.”

(b) The Market Committee will standardize the various market practices and charges; would keep standard weights, will see that the same broker does not represent both buyer and seller; and perform similar other functions ensuring fair play in dealings. In cases of dispute, the Committee will provide arbitration facilities.

(c) The Act provides for the licensing of brokers and weighmen and prescribes penalties for breach of law.

This guarantee of fair-play for the peasant in the market is bound to encourage him to take his produce for sale there.

13. Co-operative Marketing : In theory, a multitude of advantages are claimed for co-operative marketing : "Improved marketability of goods, possibilities of developing markets (by means of advertising), stabilizing of production, controlling the flow of the supplies, increased bargaining power of the growers, reduced costs and more efficient service, ability to finance the marketing and producing operations of the members and so on."²

Co-operative marketing has met with great success in Europe and America. In India, beginnings have already been made in several provinces. In Bombay, sale societies for cotton are doing well. Co-operative cotton sale societies have also been started in the Central Provinces, Madras and the Punjab. The principle of co-operative sale has been extended to gur, tobacco, chillies, paddy, areca nut, and potatoes. Experiments made in Bengal in the sale of jute and paddy have not met with success. Sale societies in Madras too have not made much progress. The movement, however, has struck root in Bombay where cotton growers have reaped considerable benefits. In United Provinces, societies for the sale of sugarcane are making rapid progress, so are the ghee sale societies. Potatoes, cereals and fruit are also being tackled in the same way with success. In Bihar, cane growers' societies are being formed. In other provinces the movement has not made notable success. The causes of the lack of progress are many: "It is only the complexity of the working of co-operative sale societies, the difficulty of providing for marketing finance, the lack of expert knowledge on the part of co-operative officials and the lack of godown and storage facility that have prevented the rapid multiplication of sale societies and their efficient working."³

The new marketing organization established by the Central and Provincial Governments is expected to stimulate co-operative marketing.

14. The New Marketing Organization : The Agricultural Commission had recommended the appointment of expert marketing officers and carrying out of marketing surveys of the various commodities. The Government, however, delayed the

1. S. Kartar Singh, "*Marketing of Agricultural Produce in the Punjab.*" an article in *Ganga*, February 1940, p. 38.

2. Hussain, op. cit., 296,

3. *Indian Year Book*, op. cit., p. 382.

matter due to financial stringency until in April 1934, Mr. A. M. Livingstone was appointed Agricultural Marketing Adviser to the Imperial Council of Agricultural Research. The Provincial Economic Conference of April 1934 also agreed on the development of marketing facilities and recommended action on the following lines: (i) Propaganda and supply of information in external markets regarding Indian products; (ii) The grading, storing and bulking of the main staple products, special market organization for perishable commodities; (iii) Information to India's producers of consumers' requirements both in India and abroad, (iv) The planning of production on basis of quality and demand, (v) The establishment and development of regulated markets; (vi) The undertaking of market surveys for the purpose of developing a common plan throughout India; and (vii) The establishment of properly organized "future" markets, commodity exchanges and warehouses.

The Government of India, in their resolution of 8th May, 1939, outlined their policy on the lines recommended by the conference. This policy is to be carried out in collaboration with the Provinces and the States through the agency of a Provincial and Central Marketing staff which has been appointed. The central staff consists of the Agricultural Marketing Adviser, three Senior Marketing Officers, three Marketing Officers, one Supervising Officer for experimental grading and packing stations and twelve Assistant Marketing Officers. The provincial staff include a Chief Marketing Officer and Assistant Marketing Officers.

The work of this staff falls into three divisions: (i) Investigation; (ii) Development; and (iii) Grading. Investigation work includes carrying on of marketing surveys of important commodities, problems of regulated markets, transportation, storage, etc. Development work will mostly depend upon the results of surveys. It, however, includes keeping the producer and trader in touch with consumers' requirements and popularization of standard grades and containers. The work of grading is technical and relates to the chemical and physical properties of products to be graded like oil seeds, grains, fruit, etc.

15. The New Organization's Achievements: The new marketing organization has done good work since its establishment. Its achievements are summarized below :—

(i) Marketing surveys of a large number of commodities have been accomplished and reports of such surveys have been published. The chief commodities surveyed are : rice, wheat, linseed,

groundnuts, tobacco, coffee, fruit, milk, eggs, livestock, hides and skins, etc.

(ii) The surveys revealed the necessity for grading due to the sale of mixed produce of doubtful quality that was going on. There was thus a case for grading agricultural produce. To this end the Agricultural Produce (Grading and Marketing) Act was passed in February 1937. We have already noted the work done under this Act. On account of grading of the produce, goods, especially perishable goods (eggs, fruits, etc.), secure better prices than before.

(iii) Progress has also been made with respect to standardization of contract terms (for white wheat, linseed and groundnuts) thus widening their marketing field.

(iv) Finally, arrangements have been made for market news service. This is done by weekly broadcasts from the All-India Radio, Delhi, regarding prices, stocks and movements of certain staple commodities. Daily closing rates are also broadcast from some other Radio Stations like Lahore in the rural programme. The Provincial Marketing Officers are taking steps to further improve marketing news services.

A Ministers' Conference on Agricultural Marketing was held in New Delhi in 1941. It recognized the need for slowing survey work and accelerating developmental work. Among other things the conference favoured the establishment of an organization for the purpose of investigating the possibility of adjusting India's export trade in primary products to war conditions.

CHAPTER VII

RURAL FINANCE AND INDEBTEDNESS

1. Introduction : Fifty years ago (in 1895), Sir F.A. Nicholson wrote in his famous Report on Land and Agricultural Banks : "The lesson of universal history from Rome to Scotland is that an essential of agriculture is credit. Neither the condition of the country, nor the nature of the land tenure, nor the position of agriculture affects the one great fact, that the agriculturist must borrow." In fact every modern business worth the name is run on credit or borrowed money. Agriculture, however, gives rise to certain peculiar problems of finance because of its uncertainties, its comparatively small unit of production, scattered nature of its operations, and the conservative character of the peasants. These characteristics are still more prominent in India due to small holdings, the illiteracy of the peasant, his lack of forethought and subservience to age-old custom and out of date tradition. This accounts for the fact that the problem of rural finance has become primarily the problem of rural "indebtedness." The latter word conveys something more than merely borrowing for productive purposes. No doubt our cultivator does need money to make improvements in land, to replace his used up implements and for current expenses on seed, manure and especially for the purchase of cattle. But it happens that actually the capital invested in his farm for these purposes is very small¹ indeed. Most of his indebtedness is due to unproductive² expenditure in the past. It should be noted that unproductive expenditure is not necessarily (though in many cases it is) unjustifiable expenditure. For instance, expenditure due to a natural calamity (e.g., famine, or frequent cattle mortality) may be quite essential, but it will be unproductive all the same. Money borrowed for purely productive purposes, e.g., sinking of wells, buying improved seed, constructing embankments, etc.) does not in the long run lead to indebtedness because the profitable use of the money leads to its repayment.

1. Roughly Rs 30 per acre is considered sufficient capital in the Punjab—a comparatively prosperous province in Agriculture. £15 is required in Britain. Trevaskis, *The Punjab Today*, Vol II, p. 323.

2. According to the Provincial Banking Enquiry Committees 70 per cent of the debt in United Provinces, Bengal and Bombay was contracted for unproductive purposes ; 60 per cent in Madras was for similar purposes.

The problem of rural finance, therefore, must be faced from three points of view: (a) Reduction and, if possible, elimination of the existing burden of debt. (b) Discouragement of future unproductive borrowing. (c) Encouragement of productive borrowing.

Our study, therefore, will follow three lines of investigation: (i) What are the legitimate needs of the peasant for credit as an agricultural producer? How have these needs been met so far, and with what consequences? (ii) What factors have brought about the state of indebtedness of the peasantry and what is the magnitude of this indebtedness. (iii) What remedies have so far been applied to reduce old debts and to discourage unproductive borrowings? What should be the future programme to achieve the three objects given under (a), (b) and (c) above?

2. Legitimate Needs of the Peasant: The peasant requires three types of credit to carry on successfully the agricultural operations:—

(a) *Long-term credit for expenditure on permanent improvements.*—This involves investment of capital in the construction of wells, tanks, construction of bunds and embankments, digging of channels to divert the water of rivers, terracing of hillsides, clearing of jungle, drainage, reclamation, fencing etc. The larger irrigation works are constructed by the State and need not be mentioned here. The finance required on other items of such expenditure "is usually provided by the cultivator himself from his own savings or from funds raised by borrowing, but the State has long recognized as one of its duties the encouragement of such improvements by the grant of loans at a rate of interest as low as conditions permit."¹ Of this we shall speak later.

(b) *Intermediate credit.*—This he requires for the purchase of more expensive implements, cattle and sometimes for the erection of buildings.

(c) *Short-term Credit.*—In addition to the above, the agriculturist requires money for financing his current requirements, like the purchase of seed, fertilizers, feeding staff, etc.

The greater proportion of the funds required for general agricultural purposes are supplied by the local money-lenders. The money-lender also supplies him credit for domestic needs and for expenditure on social ceremonies, which we have called unproductive. "The money-lender recognizes no distinction

¹ Agricultural Commission Report, p. 416.

between the capital required to finance an industry and the money needed for ordinary household expenditure. Every thing goes down in a common account. The borrower also fails to distinguish in his own mind between sums borrowed for productive purposes, from the expenditure of which a more than equivalent return is to be expected, and those taken for current needs which a more prudent man would meet from savings or income. The result is financial confusion and widespread indebtedness.”¹

3. Magnitude of Rural Indebtedness : What is the extent of this indebtedness? Let us answer this question before analysing the factors that have brought it about. Estimates have been made, on the basis of local enquiries undertaken from time to time, as to the extent of agricultural indebtedness in India. One of the earliest was in 1875 by the Deccan Riots Commission. Their estimate related to twelve villages in the Ahmadnagar district (Bombay). The Commission found that $\frac{1}{3}$ of the occupants were involved in debt which was about 18 times the revenue assessment, average debt per occupant being Rs. 371. In 1880, the Famine Commission expressed the view that $\frac{1}{3}$ of the land holding classes in India were deeply in debt and an equal proportion were in debt but not beyond the power of recovering themselves. Sir F. Nicholson in 1895 estimated the total rural debt of Madras at Rs. 45 crores and on this basis Sir Edward Maclagan estimated that in 1911 the total rural debt in British India was Rs. 300 crores.

The next important enquiry was that of Mr. (now Sir) M. L. Darling, I.C.S. He based his calculations on data relating to 55,308 members of 2,106 co-operative societies in the Punjab in the year 1918-19. He concluded that the total agricultural debt of the province was Rs. 90 crores, that it averaged Rs. 31 per cultivated acre, Rs. 76 per head of the agriculturist population and that it was at least 19 times the land revenue demand. In the case of proprietors, the debt, according to Mr. Darling, was equal to three years' net income of their land. The average debt per indebted proprietor was Rs. 463, but per indebted tenant it was only Rs. 150. On the basis of the Punjab figures, Mr. Darling calculated that the total agricultural debt of British India (including Burma) was not less than Rs. 600 crores or £400 million.²

The most recent and authoritative estimates have been made by the various Provincial Banking Enquiry Committees (1930).

1. Agricultural Commission Report, p. 417.

2. Darling, *Punjab Peasant in Prosperity and Debt*, p. 20-21.

Their estimates are tabulated below :

Province	Total debt	Average per agriculturist	Value of total production, principal crops, 1928-29
	Crores	Rs.	Crores
Madras	... 150	50	180.7
Bombay	... 81	49	120.5
Bengal	... 100	31	232.5
U. P.	... 124	36	140.5
C. P.	... 36	30	68.7
Punjab	... 135	92	76.7
Bihar and Orissa	... 155	31	135.7
Assam	... 22	31	...
Total British India (Burma excluded)	... 803	...	954.3
	Value of production in 1932-33-545.2		

Note the heaviness of the debt in the Punjab. It is the biggest per agriculturist and is almost double the value of her principal crops on the basis of 1928-29 prices. During the depression the prices fell on the average by about 50 per cent and hence the burden of the rural debt in India even assuming that no new debt was incurred must have doubled. According to Dr. P.J. Thomas,¹ by 1933, the real burden must have reached Rs. 2,200 crores. In recent years prices of agricultural products have advanced considerably due to war and the burden of the debt may be regarded as having been correspondingly reduced. But it would be misleading to generalize without adequate data. The rise in prices has mostly benefited the larger landlords who have surpluses to sell. The ordinary peasant has suffered more from inflation than he has gained. Only a detailed investigation could show the real effects of the war on rural indebtedness. We understand the Reserve Bank is undertaking such an investigation. Its findings should prove valuable.

It is, however, not so much the amount of debt that is serious as the fact that most of this debt was undertaken for unproductive purposes. According to the respective Banking Enquiry Committees, the percentage of unproductive debt to total debt in U.P., Bengal and Bombay was about 70 per cent and in Madras 60 per cent. According to Darling, only 5 per cent of the debt in the Punjab was incurred for land improvement.

4. Causes of Indebtedness : For a debt to arise, the following conditions must be present :—

(a) Existence of borrowers with necessity to borrow and security, material or personal, to offer.

1. *Economic Problems of Modern India*, op. cit., p. 176.

(b) Existence of lenders with capital to lend and willingness to lend. The willingness of the lender to lend will depend upon, (i) the security offered by the borrower which is acceptable, and (ii) the existence of law and courts to which recourse may be had to realize the money in case the borrower refuses to pay.

In the light of the above, it will be easily understood why indebtedness was not a serious problem before the establishment of the British rule. The borrowers' necessity has always existed in India. "We have found no reason to believe," wrote the Famine Commission in 1880, "that the agricultural population of India has at any known period of history been generally free from debt." But the indebtedness could not have been very serious in pre-British days. This was because (a) "there was little accumulation of capital to lend ; (b) there was little surplus from which a loan could be repaid ; (c) there was practically no security to offer ; and (d) there were no sure means of enforcing recovery against a recalcitrant borrower."¹ There was little capital to lend because there was little trade activity in the absence of means of transport and internal security. There was little surplus for repayment of loans because of the heavy demand of land revenue. There was no security to offer because the rights of ownership in land were neither valuable (because it produced no surplus) nor definitely recognized and enforced. Finally, there were no regular courts to enforce contracts between the debtor and the creditor.

The advent of the British rule, in due course, changed all this in the Punjab and elsewhere in India. "The land from being a burden entailing the satisfaction of a crushing State demand became a valuable property, improved communications opened up markets for the sale of surplus produce . . . property of all kinds rose rapidly in value. Further, the introduction of fixed laws and the general security following on the enforcement of order rendered the land available as the ultimate security for loans. Another factor of great importance was the growth of a money economy and the increase of wealth as trade developed."² The Famine Commission wrote in 1880—"Now, with value of land risen, rights defined and recorded, money-lenders have lent more freely on the security of ascertained interest in land . . . There is everywhere a serious amount of agricultural debt, and, at any rate, there is everywhere the habit of running accounts with the money-lenders which always slide into debt when a crop is lost, or a bullock has to be replaced."

Thus the advent of British rule increased the opportunities of borrowing and lending. But what about the necessities which

1. Calvert, *op. cit.*, p. 244.

2. *Ibid.*, p. 248.

compel a peasant to borrow. They have always existed and on account of the greater pressure on land have been accentuated with the passage of time. Some of the "necessities" are not economic but social. Those latter with the peasant's inherent extravagance and improvidence (these in turn are due to historical and political causes) have contributed considerably to make the burden of debt more serious than it might have been if mere economic necessity was the compelling force.

We may summarize the causes of indebtedness of the peasant in the words of Mr. Darling. What he has said about the Punjab applies equally to the rest of India.

"There are four main reasons why the peasant proprietor is obliged to borrow :—

1. The small size of his holding and the way it is split up, conditions which make it almost impossible for him to live without getting into debt, unless he is exceptionally frugal and industrious, or has some extraneous source of income ;
2. His constantly recurring losses of cattle from drought and disease ;
3. His ingrained improvidence, the effects of which are greatly aggravated by insecurity of crops ; and
4. His extravagant expenditure upon marriage and other domestic ceremonies.

In addition there are two causes which make borrowing easy, namely :—

- (1) The money-lender and his vicious system of business, and
- (2) The great expansion of credit due to high prices and inflated value of land."¹

A word may be said about the "vicious system" of the money-lender. This refers to his malpractices which are much less common today than they were 50 years ago, due to greater acuteness of the peasant and legislative regulation of the money-lender's activities. One quotation will give some idea of their nature: Speaking in the Governor-General's Council in 1879 supporting the Deccan Relief Act, Sir Thomas Hope said : "That the money-lenders do obtain bonds on false pretences ; enter in them sums larger than agreed upon ; deduct extortionate premiums ; give no receipt for payments and then deny them ; credit produce at fraudulent prices ; retain liquidated bonds for sums

1. Darling, *Punjab Peasant in Prosperity and Debt*, p. 25.

not advanced ; charge interest unstipulated for, over-calculated or in contravention of Hindu Law, and commit a score of other rogueries—these are facts proved by evidence so overwhelming that I scarcely know what to quote out of the five volumes composing the Report of the Commission.”¹

Many of these practices have disappeared, but the burden of the old debt contracted under these conditions still lies as a dead-weight on the shoulders of the Indian peasantry. Hence the relevance of the quotation even in the contemporary debt situation.

5. Land Revenue as Cause of Debt : Before concluding this discussion of causes, a few words may be said about a controversial topic, namely, how far land revenue is a cause of rural indebtedness. To what extent the present land revenue demand is fair, is a topic which we shall discuss in a subsequent chapter. Here we are only concerned with the degree to which land revenue is responsible for the cultivator getting into debt.

Mr. Thorburn found in 1896, that 12 per cent of the debt was borrowed to pay land revenue in the area of his enquiry in the Punjab. Punjab Co-operative Societies Reports show that about 15 per cent of the money is advanced for the object of land revenue payment. According to Mr. Thorburnland revenue “was rarely an original cause of debt.” Mr. Darling also supports the view that land revenue “is not an important cause of debt.”² According to him, land revenue payment may often be an “occasion for borrowing” but it is not “a primary cause of debt.” “When it is remembered,” he adds, “that land revenue averages only Re. 1-11-0 per cultivated acre against Rs. 31 in the case of debt, and that in interest alone the cultivator has every year to pay nearly three times the whole land revenue of the province, the only ground for surprise is that anyone should ever have considered it a serious case of debt.”³ Mr. Calvert is of the view that in the Punjab, in earlier days of British administration, when land revenue was rigidly fixed and realized, it was a reason which induced the cultivator to borrow. “From 1882 onwards,” he adds, “successive steps have been taken to render the system more elastic and more adaptable to the variations in the harvests.”⁴

1. Quoted by Darling, op. cit., p. 224. For further details of the money-lender's system, read Darling's *Punjab Peasant*, Chapter X.

2. Darling, op. cit., p. 19.

3. *Ibid.*, p. 251.

4. Calvert, op. cit., p. 258.

We may conclude, therefore, that though in the past the land revenue acted oppressively on the peasantry, and though even now the system may be open to criticism, it cannot be regarded as a serious cause of indebtedness.

6. Consequences of Indebtedness : When an agriculturist borrows money for productive purposes, the result is increased prosperity for him. The productive capacity of his land is enhanced and the debt becomes a blessing for him. But when the money is spent on unproductive expenditure, as most of the money borrowed by the Indian peasant is spent, the debt becomes a standing curse to him. It leads to serious economic, social and moral consequences.

(i) *Economic Consequences.*—Indebtedness leads to agricultural inefficiency. When the cultivator finds that all his additional efforts merely fill the pockets of his creditor, he loses all interest in improving his position by greater effort and improved methods of production. Productivity of land thus decreases. If the debt involves mortgaging and finally sale of landed property, the result is increase in tenant cultivation and increase in the number of landless labourers. Both of these developments do not conduce to agricultural progress and prosperity. In the marketing of his produce also the peasant suffers if he is a debtor to the *bania* or the middleman. He usually has to sell his produce to his creditor on the latter's terms. This means not only lower monetary returns to the debtor, but it also acts as a serious barrier in the way of improvement of marketing methods through co-operative sales, etc. No agricultural progress is possible for an indebted peasantry.

(ii) *Social Consequences.*—Class friction arises between the creditor and debtor classes. The increase of a landless class with no avenues of employment creates social discontent and political agitation. Statistics show that landless labourers are on the increase in India. In 1921, they were 291 for every 1,000 ordinary cultivators, in 1931 their number increased to 407 per 1,000 cultivators.

(iii) *Moral Consequences.*—These are the worst. The cultivator loses his ancestral property and in many cases with it his economic freedom. In certain provinces cases exist of such servitude. In some of the south-western areas of the Punjab (Muzaffargarh district), the tenants are practically slaves of their landlords and are thoroughly exploited. In Bihar and Orissa, *Kamiauti*¹ agree-

1. *Kamiauti* agreements were declared illegal by an Act in 1920. "But it would appear," wrote the Agricultural Commission, "that the *Kamia* is too poor to set the law in motion and that Act has proved ineffective" Report p. 435. Read also details of the *Kamiauti* System, same Report, p. 434-35.

ments and in Madras the Pannaiyal system, have created conditions of practical servitude for the labourers. "In both cases," says Prof. P. J. Thomas, "a labourer borrows a small sum of money to celebrate a wedding or funeral, but in return he has to work for the lender, receiving a bare pittance for his livelihood. He can never be expected to save up the amount needed, and, therefore, the transaction becomes an indenture for life."¹ A similar system prevails in the Central Provinces, where a debtor has to render service to the creditor with or without payment for a fixed period.

7. Remedies—Old Debts : As already noted, three-fold measures are necessary to meet the situation created by the indebtedness of the cultivators :—

- (i) Settlement of old debts.
- (ii) Prevention of new unproductive borrowing.
- (iii) Encouragement of borrowing for productive purposes only, by creating new credit agencies and regulating the old.

It is obvious that unless the crushing burden of the existing (mostly ancestral) debt is reduced, there is no hope of any future reform or agricultural advancement. "The ancestral debt has accumulated because of the ignorance of the peasant of the legal position, that debts of the deceased can pass on to his heirs only to the extent of the property inherited by the latter." One remedy is to declare the debtor insolvent where his assets fall short of his liabilities. "No one desires to see a wholesale resort to insolvency," wrote the Royal Agricultural Commission, "and no one, we trust, desires to witness a continuation of a system under which innumerable people are born in debt, live in debt and die in debt, passing on their burdens to those who follow."² The Central Banking Enquiry Committee agreed with this view and suggested certain special provisions in the proposed Rural Insolvency Act.

In some provinces, legislation has been passed in recent years which includes provisions for declaration of insolvency under certain conditions and also for the reduction and settlement of old debts, on equitable basis for both parties. These measures aim at :—

- (a) Liquidation of debts where necessary.
- (b) Conciliation of debts where practicable.

1. Mukerjee, *Economic Problems of Modern India*, Vol. I, p. 172.
 2. Report, p. 440-41.

(a) *Compulsory scaling down or liquidation*.—Such measures are contained in : The Madras Agriculturists Relief Act (1938) ; The Central Provinces and Berar Relief of Indebtedness Act (1939) ; The Bombay Agricultural Debtors Relief Act (1939) ; The U.P. Agriculturist Debt Redemption Act (1939). Some Indian States like Bhavanagar, Mysore and Travancore have also adopted similar measures. In Bhavanagar striking success was achieved. The debts after having been scaled down were taken over by the Durbar, who paid off the creditors. The debt is being realized from the peasants in small instalments along with land revenue.

It is not possible here to describe in any detail, the methods adopted in all the above legislative measures. Only the central ideas of each may be noted :

The Madras Act was the most radical and was the first of the series. As a result of it, arrears of interest outstanding on October 1, 1937, were wiped out, only the principal had to be paid. From that date up to October 31, 1937, debts incurred were to pay 5 per cent interest. In future debts the role of *dandupat*¹ was to be applied. The maximum legal rate was fixed at 6½ per cent, but it could be altered by Provincial Governments.

The C.P. and Berar Act provided for Debt Relief Courts in place of the Old Debt Conciliation Boards, and gave graded relief to the debtor based on the estimated fall in the value of land in respect of the principal of the debt as follows :—30 per cent reduction in the case of debts prior to December 31, 1925 ; 20 per cent in the case of debts incurred after December 31, 1925, but before December 31, 1929 ; and 15 per cent in the case of debts incurred after December 31, 1929, but before December 31, 1931. No relief is provided for debts incurred subsequent to December 31, 1931.

The Bombay Act has only been enforced in a few talukas as an experimental measure. It aims at reducing indebtedness of genuine agriculturists only. The scheme provides compulsory scaling down of debts through Debt Adjustment Boards constituted for this purpose. These Boards work under Civil Courts. The reduced debt is to be paid by easy instalments. Only cultivating agriculturists whose debt, on January 1, 1939 was not more than Rs. 15,000 are to receive relief. Graded relief is provided in respect of principal and interest.

1. Under this principle, the total liability of the debtor is not allowed to exceed double the sum borrowed, i.e., total interest paid cannot exceed the total principal borrowed.

According to the U. P. Act the creditor is to be paid not more than twice the amount of the principal borrowed, minus all the payments received by him from the debtor in the past in connection with the transaction under consideration.

(b) *Debt Conciliation Legislation.*—Conciliation involves voluntary settlement between the debtor and the creditor, with the help of specially constituted Conciliation Boards. Legislation in this connection is largely based on the recommendations of the Central Banking Enquiry Committee and was specially necessitated by the disastrous fall in agricultural prices during the Depression. The lead was given in this type of legislation by the Central Provinces which passed the Debt Conciliation Act in 1933. This was followed by the Punjab (Relief of Indebtedness Act, 1934), Bengal (Agricultural Debtors Act, 1935), Assam (Debt Conciliation Act, 1935), Madras (Debt Conciliation Act, 1936) and Sind (Debt Conciliation Act, 1939).

Though differing in details all these measures have certain common features which may be noted.

They all provide for the establishment of Debt Conciliation Boards of from 3 to 9 members, representing the class of debtor's and creditors respectively. The chairman is an executive or a judicial officer of the Government. Their jurisdiction is limited in certain provinces. In the Punjab the limit is Rs. 10,000. Co-operative debts are excluded from their jurisdiction in the Punjab, but they can be included in the C. P. and Madras with the approval of the Registrar Co-operative Societies.

The general procedure is that a debtor or any of his creditors may apply to the Board, appointed for the area of the debtor's residence, for settlement of debts. Notice is then issued to every creditor to submit statement of debts owed by the debtor in question. The parties then explain their case. In the Punjab and Assam lawyers are allowed; in C. P. they are not. The Board can only apply persuasion except in Bengal where the Boards can apply compulsion, if necessary. After a settlement is reached which usually relates to a certain percentage of the debt (40 per cent is most common) it is signed by the Board and is registered under the Indian Registration Act. Instalments are then fixed with due regard to the paying capacity of the debtor. These usually range over a period of 15 to 20 years.

Repayment of the conciliated debt is the crux of the whole problem, because on it depends the success of this method of settlement. It is necessary, therefore, to devise suitable modes of payment. The Government is not in a position to shoulder the

responsibility. Land Mortgage Banks run on co-operative lines seem to be the best agency for this purpose. In some cases, specially in the Punjab, payments have been made in one lump sum by sale of cattle, jewellery, etc. Payment through Land Mortgage Banks, however, gives the best hope of success. Such banks have already been established and are doing good work in the C. P. and Madras. By the method of conciliation, debts have been considerably reduced in Central Provinces (where under the new Act of 1939 Conciliation Boards have been abolished), Punjab, Bengal and Assam. In C.P., for instance, a debt of Rs. 958.69 lakhs was reduced by 50 per cent to Rs. 479.22 lakhs.

8. Regulation and Control of New Borrowing and Lending :

The second approach to the problem of indebtedness is to create conditions under which unproductive borrowing and lending may be discouraged. This requires a proper education of the borrower and imparting to him a greater sense of responsibility and foresight. This can be done by intensive propaganda and gradual spread of primary education. An active village panchayat can do a great deal in this connection.

But mere persuasion of this kind may take long to produce results. The peasant must be saved from his own self. This can partly be accomplished by taking measures to reduce his power of borrowing by limiting his credit. We have seen that debt grew after land became valuable, which made it safe for the lender to lend. Credit can be reduced, therefore, by putting limitations on the transfer of rights in land. On the other hand, the temptations of the money-lender can be reduced by restricting his power to attach certain types of peasant's property or powers of getting him arrested for non-payment of debt. In addition his system of lending can be regulated so that he is unable to increase illegitimately his profits from money-lending. This can be done by forcing him to keep proper accounts and to keep the debtor informed of the latter's liabilities, by fixing a maximum rate of interest that can be charged, by making money-lending illegal except under a licence. Such measures have been introduced in various provinces and if they are properly enforced borrowing for unproductive purposes will be definitely discouraged. We now proceed to consider these measures in greater detail.

9. Restrictions on the Borrower :

The most important of these are the restrictions on the transfer of land. The most outstanding example of legislation passed for this purpose is the

Punjab Land Alienation Act of 1901, amended in 1907 and again in 1938. A similar Act was passed for Bundelkhand (U. P.) in 1903. Restrictions on the alienation of land by aboriginal tribes exist in the Central Provinces and Bombay.

The Punjab Act led to a great controversy which is still not entirely dead and deserves our special attention. "In accordance with its provisions," in the words of the Agricultural Commission, "the chief ancestral cultivating classes have been notified as falling within the restrictions imposed.....Members of the notified tribes are grouped by districts and within such groups alienations are left free, subject to the ordinary customary law of the tribe ; sales and mortgages by members of a group to anyone not such a member are restricted by the Act."¹ The Commission found that the Act had achieved its main object, namely, that of restricting the transfer of agricultural land from the agricultural to non-agricultural classes. This was the evil in the Punjab that had called forth the Act

The opponents of the Act predicted all sorts of evils as its consequence. "The value of land would be depreciated, the provisions of the Act would be disregarded or evaded, the money-lender's trade would become impossible and the borrower would be pinched. In point of fact all these gloomy prognostications proved groundless."² Some evasion, however, took place through the method of *benami* transactions, by which transfers were nominally made in favour of an agriculturist while the real benefit was received by the non-agriculturist money-lender. Such transactions were made illegal by an amendment in 1938. Another amendment, the same year, put the agriculturist money-lender on exactly the same footing as the non-agriculturist money-lender. Land now cannot be transferred to either in payment of debt.

The most common criticisms of the Act are:—(i) It is a communal measure passed to benefit the Muslims against the Hindus. By giving statistics, Calvert has shown that "a large proportion of agriculturists protected are Hindus, and these Hindus outnumber all the non-agricultural Hindus in the province except the menials."³ Again "if menials and untouchables are excluded there are more Hindus protected than unprotected."⁴ Moreover, "the Act has counterparts in other countries.....the American

1. Report, p. 420.

2. Calvert, op. cit., p. 268.

3. Ibid, p. 270.

4. Ibid, p. 269.

Homestead Law."¹ The fact that in this province those desiring to purchase are mostly Hindus, while the proprietors of the land may be Hindus, Muslims, or Sikhs, is a pure accident of History.

(ii) That it has failed in its real object, because it has left the poor agriculturist at the mercy of the agricultural money-lender, who is rapidly buying up his land and is reducing him to the status of a tenant. To this the first reply is that the Act was never intended to stop all transfer of land. Some transfers may be beneficial, e.g., an owner of an uneconomic holding may want to migrate to the town. Moreover, inquiries into sales by members of agricultural tribes do not show that large owners are buying up small owners in any appreciable extent. Finally, the amendment of 1938 puts the agriculturist money-lender on the same footing as the non-agriculturist.

(iii) That it prevents urban capitalist classes from investing money in agriculture and thus stands in the way of agricultural progress. "In Germany," says Darling, "rural movements owe much to men who were not agriculturists."² To this it may be replied that conditions differ in different countries. The Punjab experience is that the non-agriculturist landlord (with very few notable exceptions in south-west Punjab) is incapable of cultivating land himself and "does not invest any capital in improving it...but contents himself with obtaining the best rent he can."³ "There is a total area of over five million acres owned by those who are not members of notified agricultural tribes, of which over three million acres are cultivated, but the owners have not taken the numerous opportunities open to them to evince any marked interest in agriculture, beyond planting a few gardens."⁴ Besides auction sales in the Punjab colonies (of nuzul lands) are free from all restrictions; the commercial classes have shown little desire to purchase such lands. Finally, the non-agricultural owners seldom cultivate their own land, but let it to the agricultural tribes on rent, "this should be proof enough of their own belief as to who is best fitted to cultivate it."⁵

In addition to the restrictions on the transfer of land some other Acts place restrictions on the attachment of other forms of property up to a certain minimum. For instance, the Code of Civil Procedure was altered, in order to exempt from attachment or sale agricultural tools and implements and cattle necessary for

1. Ibid, p. 270.

2. Darling, op. cit., p. 188.

3. Calvert, op. cit., p. 271.

4. Ibid, p. 274.

5. Ibid.

tillage and the material of the agriculturist's house. The agriculturist debtor was exempted from arrest for a decree of the Court. He was also given concession of repayment of his debt by instalments. The Deccan Agriculturists Relief Act, 1879, also contained similar provisions in addition to others.

10. Restrictions on the Lender: The restrictions on the borrower are in a sense also restrictions on the lender, because they make the latter more cautious to lend when means of repayment are under restriction. But there are certain direct restrictions on the money-lender which fall under the following categories :—

- (i) Provisions for the registration and licensing of money-lenders.
- (ii) Regulation of accounts.
- (iii) Limitation of rates of interest.
- (iv) Miscellaneous provisions.

The above provisions are contained in a number of Acts most of which have been passed by the various provinces under the stress of the recent economic depression. An important Act among these is the Usurious Loans Act, 1918, which was passed by the Central Government. It aimed at determining the legal and maximum amount of interest recoverable, reducing the rate of interest chargeable and fixing a maximum rate of interest. One important feature of the Act was that the court could reopen old transactions and inquire into the equity of the terms. The Agricultural Commission and the Banking Enquiry Committees, however, found that the Act was a dead letter. In recent years it has been amended by several provinces (like Bengal, Assam, C.P., Punjab, U.P., N.W.F.P., Madras and Bihar) with the object of making it incumbent upon the courts of law to reopen the account and reduce the rate of interest as prescribed in the amending Acts.

1. A list of these Acts according to provinces is given below :—

THE PUNJAB: The Regulation of Accounts Act, 1930; Relief of Indebtedness Act, 1934; Debtors' Protection Act, 1936; Registration of Money-lenders Act, 1938.

BENGAL: Money-lenders Act, 1933.

C.P.: Money-lenders Act, 1934; Reduction of Interest Act 1936; Protection of Debtors Act 1937.

U.P.: Agriculturists' Relief Act, 1934; Encumbered Estates Act, 1934; Regulation of Sales Act, 1934

ASSAM: Money-lenders Act, 1934.

MADRAS: Debtors' Protection Act, 1934; Agriculturists' Relief Act, 1938.

BIHAR: Money-lenders Act, 1938.

ORISSA: Money-lenders Act, 1939.

Other Acts were originated by the Provincial Governments¹ in each case. Since it is not possible to discuss them separately, their provisions will be examined under the various heads as listed above.

(i) *Registration and Licensing of Money-lenders.*—The money-lender has to get himself registered and to obtain a licence in the C.P., Bihar and the Punjab. In the case of dishonesty such licences can be cancelled. Penalty is provided for money-lenders not taking out a licence. In C.P. it is a fine; in Bihar, the Punjab, Bengal and U.P. the assistance of courts is denied to them in enforcing their claims. To enforce the system of registration and licensing is difficult. Supervision by inspectors as in U.S.A. can ensure better observation of the law.

(ii) *Regulation of Accounts.*—The money-lender has to maintain regular account books and he has to furnish each of his debtors with a periodic statement giving details of the latter's liabilities, with respect to principal and interest due with respect to each loan transaction. In Assam and Madras, the statement is to be supplied only on demand by the debtor. He must also furnish receipts of payments received by him. Penalties (usually loss of interest) are provided for failure to keep accounts. Entry of fictitious amounts as debt is declared illegal and punishable with fine in Assam, Bihar, Orissa, Bombay and U.P. The Punjab Act provides for dismissal of the suit.

As to the working of this provision it has been found that it is usually disregarded in practice by the money-lender (Punjab) and is rarely enforced by the debtor (C.P.) The debtor's necessity and his ignorance of his rights stands in the way of the effectiveness of the law.

(iii) *Limitation of Interest Rates.*¹—Maximum rates of interest

1. The maximum interest rates as fixed in the various provinces are as follows;

Provinces	Secured		Unsecured	
	Simple Interest per cent	Compound Interest per cent	Simple Interest per cent	Compound Interest per cent
Madras	9	Considered excessive	15	Considered excessive
Bombay (Bill)	9	Prohibited	12	Prohibited
Bengal	15	10	25	10
Punjab	12	9 (with yearly rests)	18 3/4	14 (with yearly rests)
Bihar	9	Prohibited	12	Prohibited
Orissa (Bill)	9	Prohibited	12	Prohibited
C. P.	12	5 (with yearly rests)	18	5 (with yearly rests)
Assam	12 1/2	Prohibited	18 3/4	Prohibited
U. P.	12	Prohibited	24	Prohibited

that can be charged are fixed by legislation and distinction is made between secured and unsecured loans except in Madras. Unsecured loans pay higher rates. In some provinces (Bihar and Assam) compound interest is prohibited. In U.P. Government notifies rates from time to time in the light of the conditions of the money market. In the Punjab on secured loans the maximum rate is 12 per cent simple and 9 per cent compound interest and on unsecured loans it is $18\frac{3}{4}$ and 14 per cent respectively. The highest interest is allowed in Bengal. It is 15 per cent simple and 10 per cent compound on secured and 25 per cent simple and 10 per cent compound on unsecured loans.

In most provinces (Assam, Bengal, Bihar, the C.P., Madras, U.P., and the Punjab) the principle of *damdupat* is adopted according to which the interest of a loan cannot exceed its principal.

It is very difficult to enforce interest rates. When the borrower is needy the lender can always charge a higher rate, either by an agreement out of court or by entering a higher sum as principal than is actually loaned. Such abuses have already come to light in Bengal, the U.P. and Madras. By a vigorous propaganda the cultivator should be informed of the existence of protective measures.¹

* (iv) *Miscellaneous*.—Other provisions relate to protection of the debtor from intimidation and molestation (as in C.P., Bengal, and U.P.). Others exempt his holding from attachment and sale in payment of the debt—as in the Punjab, Bihar and U.P.

11. Debt Legislation in the Punjab : In the above treatment we have dealt with the various provincial measures together. It is not possible to give provisions of individual measures passed in all the provinces, but we may summarise the provisions of the Acts passed in the Punjab. This is done below :—

(i) *Regulation of Accounts Act, 1939*.—Under this Act the creditor is required to keep regular accounts relating to each of his debtors separately. At the end of every six months he must furnish a legible statement of accounts to each and every debtor. If he fails to do so, with respect to a loan the court is required to disallow, as may seem reasonable, either whole or part of the interest due on it, even though his claim has been otherwise established in whole or in part and further disallow costs.

(ii) *The Relief of Indebtedness Act, 1934*.—The main provisions of this Act are : (a) A person owing Rs. 250 and over can apply

to be adjudicated insolvent. (b) Estates up to the value of Rs. 2,000 can be summarily administered, *i.e.*, without appointing a receiver or publishing certain notices. (c) Interest is to be deemed excessive by the court if on secured loans it exceeds 12 per cent per annum simple or 9 per cent compound, and if on unsecured loans it exceeds $18\frac{3}{4}$ per cent simple or 14 per cent compound. (d) The Act makes provision for setting up of Debt Conciliation Boards. Such a Board is to consist of a Chairman or two or more members appointed by the local Government for a term not exceeding three years.

A debtor or any of his creditors may apply for settlement to the Board. The Board calls, where the debtor has appeared, upon every one of his creditors to submit a statement of the debts owed to him by the said debtor. The debt for which the statement is not submitted is deemed for all purposes and all occasions to have been duly discharged.

The creditor has to furnish all the necessary information to the Board well supported by documents regarding his claims. The debtor has to explain his case. The Board then endeavours to induce them to arrive at a settlement. If a settlement is arrived at, the Board reduces it to writing. The agreement is then registered and take effect as if it were decree of a Civil Court. If no settlement is arrived at, the Board dismisses the application. If the Board thinks that the offer by the debtor and refusal by the creditor is fair, the Board may grant the debtor certificate in respect of the debt owed by him to such creditor. If the creditor sues the debtor for such a debt, then the court does not allow costs in such a suit, nor interest on the debt after the date of registration, at more than 6 per cent per annum simple interest. (e) The principle of *Damdapat* is accepted, according to which no court can pass a decree in any suit brought against an agriculturist for a sum larger than twice the amount of the sum taken as principal. Banks, however, are excepted. (f) Finally, an agricultural debtor may at any time deposit in court sum of money in full or part payment of his debt for payment to his creditor, and from that date interest ceases to run on that deposit.

(iii) *Debtors' Protection Act, 1936*.—This Act provides that a Civil Court can order the attachment and temporary alienation of the land of a judgment-debtor. For execution the proceedings are transferred to the Collector of the district who is to determine how much of the land is to be attached and alienated and for what period, not exceeding 20 years.

(iv) *The Land Alienation (Second Amendment) Act, 1938*.—This Act declares *Benami* transactions to be invalid. This fills a loop hole in the Land Alienation Act of 1901 which prohibited sales of land by an agriculturist to a non-agriculturist, as we have already seen. Some non-agriculturists used to purchase land in the name of a member of the agriculturist tribe and get the benefit themselves. This is not strictly a debt legislation though probably occasions for such transactions were created by advances of loans.

(v) *The Land Alienation (Third Amendment) Act, 1939*.—This Act seeks to put the agriculturist money-lender on the same footing as the non-agriculturist money-lenders so far as the acquisition of land of the debtor by the creditor is concerned. The creditor cannot buy the land of the debtor until three years after the payment of the debt in full.

(vi) *Registration of Money-lenders Act, 1939*. This Act requires all money-lenders to get themselves registered and to hold licence on payment of the fee that may be fixed. Failing this no court is to entertain any suit by a money-lender for the recovery of a loan, or application for the execution of any decree relating to a loan. The Collector may cancel a licence for a specified period for malpractice.

(vii) *Restitution of Mortgages Act, 1938*.—This Act extinguishes mortgages effected before the commencement of the Punjab Alienation of Land Act, 1901. Compensation may be paid but only under certain conditions.

12. Critical Estimate of Debt Legislation : The debt legislative measures considered above have been variously viewed. On the one hand they have been welcomed as blessings for the mass of the peasants and on the other they have been regarded as a curse. The Punjab measures were called the "Golden Bills" and the "Black Bills" respectively by their supporters and opponents. Apart from the view of interested parties the following points of criticism deserve attention.

(i) The greatest objection that has been advanced against the debt legislation is that it has led to the contraction of credit in the rural areas. The Statutory Report of the Reserve Bank draws attention to this fact. "In areas where such legislation is in force, it is said, that the money-lenders have discontinued lending except to old and trusted clients and have restricted their loans to a minimum."¹ (i) The contraction of credit cannot all be

1. Statutory Report on Agricultural Credit (1937, p. 10).

attributed solely to debt legislation. The economic depression of the thirties was also responsible for it to a large degree. Many money-lenders who were also agriculturists had their assets reduced due to fall in prices. Moreover payment of old debts stopped due to the incapacity of the peasantry and hence new loans could not be advanced. Even the Co-operative Societies were faced with the same difficulties and their advances fell considerably due to the same reason.

Even if these measures were responsible for contraction of credit, it was not an unmixed evil. We have seen that the major portion of the rural debt in India is incurred for unproductive purposes. If the money-lender has become more cautious, and that is one of the objects of his legislation—unproductive borrowing will be discouraged, and the cultivator will learn to live within his means. As regards productive borrowing, no money-lender need be afraid of losing his money in such cases. Thus honest money-lenders have nothing to fear from this legislation.

(ii) Further it is objected that the measures have encouraged default of repayment of debt among the people. Even debts owed to Government and Co-operative Societies are not paid. The debtors expect them to be reduced. This sort of demoralization, is however, not very common. This can be avoided if debtors are made to pay all the legitimate dues within their capacity to pay. The real trouble is that adequate arrangements do not exist which should assist the debtor in the payment of the reduced debts. The establishment of Land Mortgage banks can supply this need. They can arrange for cash payment on behalf of the debtor and realise the amount in small instalments over a period of say 20 to 25 years. Another way is for the Government to come forward with assistance as was done by the Government of the State of Bhavnagar. There the State took over the entire debt after it had been reduced (from Rs. 86.4 lakhs to Rs. 20.5 between 1930-34) and arranged for its recovery with 4 per cent interest along with the land revenue over a period of 25 years.

(iii) It is also said that in some cases the resources of the debtor are so meagre that he is unable to pay even the reduced debt. For this a simple Rural Insolvency Act is necessary. There was an Insolvency Act passed in 1920, but it was intended only for debtors owing more than Rs. 500. Since the courts do not allow the benefit of the Act to debtors whose rights are protected from sale in execution, the Act is not helpful to the cultivators. The Royal Commission on Agriculture recommended amendment enabling debtors of less than Rs. 500 to have its

benefit. This recommendation has been given effect to in C. P. and Berar and the Punjab. The Bengal Agriculturist Debtors Act, 1936, also contains Insolvency provisions. In other provinces no such provisions exist. Similar Insolvency provisions should be made in all the provinces.

(iv) Further it is pointed out (e.g. C. P. Land Revenue Report, 1937) that after the debt has been reduced and instalment fixed, the debtors find it difficult to secure new credit, until the last instalment has been paid. To avoid this difficulty the Conciliation Board should allow adequately for the current needs of the debtor while fixing his capacity to pay.

(v) Another criticism is that the limit of the debt which can be conciliated is fixed too high in some provinces, e.g., Rs. 50,000 in C. P. and Rs. 15,000 in Bombay. This is a minor matter and can be set right, if necessary, by an amendment.

(vi) A criticism relates to the effects of debt legislation on the Co-operative movement. Co-operative Societies, no doubt, have been given a privileged position by these Acts. In the Punjab, Co-operative debts cannot be touched by the Conciliation Boards. In Central Provinces and Berar, Madras, Assam and Bengal no settlement is valid without the previous written permission of the Registrar. In Madras, the Agriculturist Relief Act 1938 does not apply to Co-operative debt. The reasons for the treatment are obvious. Co-operative Societies keep regular accounts, they are under Government supervision and they are not profit-making bodies. Moreover these advances come out of the common fund of members and concession to some may be detrimental to others. But it should be remembered that a part of the advances of Co-operative Societies are bad debts and their writing off will be good for the movement. It will give a more realistic picture of their assets. Hence all debts, Co-operative and others, should be taken into account before a debtor's capacity to pay is fixed. So far so good. But the working of societies has been adversely affected by the debt conciliation as pointed out by the Reserve Bank Review, "because in many provinces, a member owing a debt to his society can file an application before the Conciliation Board and suspend payment of his instalment until the award is made by the Board and approved by the Registrar, thereby directly freezing the funds of the society irrespective of the ultimate outcome of the application. Large amounts of Co-operative funds have thus been locked up, and the different processes of unfreezing them are hindered by wilful default and the disinclination towards debt repayment which has proved infectious and which is not

enlightened by a due sense of discrimination between co-operative and other debts."¹

It may be emphasized, however, that debt legislation is not a final remedy for the evil of indebtedness. Money-lenders' activities may be regulated, maximum rates of interest may be fixed, old debts may be reduced or abolished, but unless the basic causes that lead to the emergence of this evil are tackled, no permanent cure will be possible. Indebtedness will arise again. The permanent cure involves the rehabilitation and reorganization of our whole agricultural economy. In fact it involves tackling of issues which go beyond agriculture, issues which can be tackled only under a planned system of economic development of the country.

The need for agricultural finance, however, cannot be minimised. Let us see what alternative methods, other than private money-lending, are available to supply this need.

13. Alternative Agencies of Finance: In addition to reforming the money-lender's system, in order to provide for the legitimate needs of the peasant, alternative sources of credit must be made available to him. To some extent they are already being utilized, but greater development in these directions must be encouraged by all possible means.

At the present time the agriculturist is financed directly or indirectly from the following sources:—

- (i) Village money-lenders, professional or non-professional.
- (ii) Indigenous bankers (usually through intermediaries).
- (iii) Commercial banks—Imperial Bank, Joint Stock Banks. These also provide finance indirectly through intermediaries of various kinds.
- (iv) The Government—takkavi loans, etc.
- (v) Co-operative organizations—Land Mortgage Banks and other Co-operative societies.

Of these the following three sources deserve attention:—

- (1) The Government.
- (2) (Non-Co-operative) Land Mortgage Banks.
- (3) Co-operative organizations.

The Co-operative movement has a scope which extends beyond the mere supply of credit and will demand our attention in the next chapter. The other two sources may be considered here.

(1) *The Government*.—At the recommendation of the Famine Commission of 1880, two Acts were passed in the eighties of the last century. (i) Land Improvement Loans Act, 1883, which provided for the supply of long-term credit for permanent improvements on land like construction of wells and embankments. (ii) Agriculturist Loans Act, 1884, under which short-term loans were given for current agricultural needs like purchase of seed, implements, manure and cattle. These loans have greatly helped the agriculturist especially during period of calamities like famines. But their scope is limited and they have certain inherent defects not easy to mend—like endless delays, rigid enforcement of repayment, petty exactions by the officials, etc. Amending Acts have been passed in Madras (1935) and U. P. (1934) which have widened the scope of the Land Improvement Loans Act (1883) by permitting loans for redemption of old debts. The credit facilities that the Government can give, moreover, are necessarily limited; hence the need for some other agency.

(2) *Land Mortgage Banks*.—These are designed to supply credit on the security of land for long periods especially for redemption of old debts. They can be co-operative, non-co-operative or quasi-co-operative. For the present purpose the co-operative type is the most suitable and hence we shall discuss them in the next chapter in connection with the Co-operative movement.

CHAPTER VIII

CO-OPERATION¹

1. Meaning: "Every group of individuals," says Strickland, "associated to secure a common end by joint effort may be said to co-operate; for instance, a football team, a gang of robbers, or the shareholders of a speculative company. A century of history has given to Co-operation with a capital 'C' a more precise meaning. It indicates the association of individuals to secure a common economic end by honest means; it is also essential in many forms of co-operation that the individuals possess a personal knowledge of one another."

"The basis of association," continues the same writer, "is (i) voluntary, (ii) democratic; voluntary because those only enter it who feel the economic need at which it aims. . . ; democratic, because those who feel a real need will be men of modest status, who, if only the honest are admitted, will not resent equality, will in fact meet most easily on an equal footing."²

Thus three characteristics of a co-operative society are notable: (a) it is voluntary, (b) it is democratic (c) the moral element in its aims is as important as the material.

1. Some oft-quoted definitions of co-operation are given below :—

- (i) "The theory of co-operation is very briefly that an isolated and powerless individual can by association with others and by moral development and mutual support, obtain in his own degree, the material advantages available to wealthy or powerful persons, and thereby develop himself to the fullest extent of his natural abilities. By the union of forces material advancement is secured, and by united action self-reliance is fostered, and it is from the inter-action of these influences that it is hoped to attain the effective realization of the higher and more prosperous standard of life which has been characterized as better business, better farming and better living."
MacLagan Committee Report, para 2.
- (ii) "Co-operation is the act of persons, voluntarily united, of utilising reciprocally their own forces, resources or both under their mutual management to their common profit or loss." Harricks: Rural Credits: quoted by Calvert: the Law and Principles of Co-operation, p. 12.
- (iii) "Co-operation is self-help made effective by organization." Plunket Co-operation, p. 7.

2. Strickland: Co-operation in India, pp. 15-16.

In other words the membership involves no compulsion, every member is as good as any other, and it aims at moral uplift of the members in addition to their material advancement.

2. Origin and Development in India: India was faced with the problem of the growing rural debt in the closing decades of the 19th century. About this time the success of small village banks in Germany and Italy attracted the attention of those who were anxious to solve this problem. The Madras Government deputed Frederick Nicholson to study the system and his report was published in 1895-97. About this time Mr. Dupernex in the United Provinces, and Edward MacLagan and Captain Crothwaite in the Punjab were organizing credit societies which could be registered under the ordinary company law. The Famine Commission of 1901 strongly recommended the introduction of credit associations. The result was the passing of the Co-operative Credit Societies Act in 1904.

The object of the Act was "to encourage thrift, self-help and co-operation among agriculturists, artisans and persons of limited means. The societies were to be either rural or urban. Generally speaking, in the organization of rural societies the principles of Raiffeisen¹ and in that of urban societies those of Schulze-Delitzsch² (both pioneers of co-operation in Germany) were followed. According to the Agricultural Commission, "three points about the new policy deserve notice: Firstly, it was deliberately decided to restrict the operation of the Act to credit only. This is partly because of the importance of the problem of debt and partly the specially educative value of a credit society which could pave the way for other forms of co-operation.

1. The Principles of the Raiffeisen model are :—

- (a) Ten or more persons can form a society. (b) No shares are issued; capital is secured by borrowing money on the joint responsibility of all the members. (c) The members have unlimited liability. (d) Each society is limited to the village, so members are expected to know one another's financial conditions and no person can become a member of more than one society. (e) There is no entrance fee. (f) The only paid member is the secretary-treasurer. (g) Loans are granted for productive purposes only and on personal security. (h) No dividends are distributed: on the dissolution of a society the reserve funds are devoted to public or charitable purposes.

2. The principles of the Schulze-Delitzsch model are :—

- (a) It believes in a large membership drawn from a wide area: (b) in the payment of large salaries to office-bearers: (c) in the distribution of handsome dividends, (d) in conducting general banking business; (e) in charging entrance fees, and keeping out persons who possess no incomes, (f) its aim is more materialistic than humanitarian; (g) the liability of members is limited.

Secondly, the movement was not the outcome of any popular demand. It was the Government which was anxious to ameliorate the condition of the people. Public enthusiasm had yet to be created. Thirdly, it was inevitable under such conditions that a Government department should be established to take charge of the movement until unofficial workers were forthcoming. These features have all along influenced the course of development of co-operation in India."¹

Credit societies were formed under the Act of 1904, and by the year 1911-12 they numbered 8,177 with a membership of 403,318 and the working capital amounting to Rs. 3,35 lakhs.

Soon, however, certain defects were realized in the Act of 1904: (i) It only sanctioned credit societies; (ii) it provided for no central agencies for supervision and supply of capital; and (iii) classification into urban and rural societies was found to be unscientific and inconvenient. A new Act—Co-operative Societies Act—was therefore passed in 1912.

The new Act met the defects of the old.

(i) Non-credit forms of co-operation affecting purchase, sale, production, insurance, housing, etc., were recognized.

(ii) New organizations for supervision, audit and supply of capital, were recognized: (a) unions, consisting of primary societies for control and audit; (b) central banks; and (c) provincial banks for supply of capital.

(iii) Instead of the old distinction between rural and urban societies, a more scientific distinction was made between those with limited and those with unlimited liability. The liability of society of which the members were registered societies was to be limited. Societies which aimed at provision of credit and the majority of members of which were cultivators, were to have unlimited liability. The others were left to the option of the members.

The Act of 1912 considerably stimulated the growth of the movement. The expansion was especially rapid after the Great War of 1914-18. But after 1930 due to the Depression the weaknesses of the movement were brought to the surface. Then followed a period of consolidation and rectification, until the last war had its own impact on the movement. The erratic course of agricultural prices was not calculated to strengthen the position of the agriculturist. The war made the adequate supply

of cheap loanable resources difficult. Co-operative banks along with others had also to face withdrawals of deposits during the critical period of May, June, 1940, though confidence was restored soon. The war, however, has stimulated consumers' stores and marketing societies and has given an impetus to small industries like woollen and handloom weaving in the development of which the Co-operative department have taken great interest.

In the meantime, the movement has been investigated by various central and provincial committees, who from time to time have scrutinized its working. The earliest of these and the most important was the MacLagan Committee which reported in 1915 and made far-reaching proposals for its future development. The MacLagan Committee referred to the whole of India. Under the Reforms of 1919, Co-operation became a provincial transferred subject. Since then various Provincial enquiries have taken place which have revealed many defects in the movement, as we shall see. The principal of these enquiries were those undertaken by the King Committee (1922), which caused a decentralization of control and finance in the Central Provinces, the Oakden Committee (1926) which brought about a transfer of the supervising staff in the United Provinces from the Central Banks to the Provincial Unions, the Townshend Committee (1928) which sought to remedy the evils of lending on the basis of material assets rather than on character in Madras societies, and the Calvert Committee (1929) which pointed out that the help of trained officers had been unwisely replaced by guaranteeing unions without expert knowledge in Burma. The Central and Provincial Banking Enquiry Committees (1929-31) made numerous recommendations with regard to co-operation The fact most prominently brought to light in their report was the heavy indebtedness of the rural population and the urgent need for relief from ancestral and accumulated debt, if short-term societies for credit were to prosper."¹ In 1934 an experienced co-operative officer was deputed to consider means by which the Reserve Bank could assist the recovery and progress of the movement. He recommended a more thorough training of the co-operative staff and a sustained teaching of the co-operative principles to the members. Courses have been arranged in several provinces to achieve these ends. More recent enquiries have taken place in Bombay by Messrs. Mehta and Bhansali (1937) and in Madras by the Vijayaraghavacharya Committee (1939-40).

1. Strickland, op. cit., p 60.

Partly as a result of these enquiries, various provinces have passed their own Co-operative Societies Acts to meet their local problems. The lead was given by Bombay in 1925 and was followed by Madras (1932), Bihar and Orissa (1935), Coorg (1937) and Bengal (1941).

In spite of the vicissitudes through which the movement has passed during the last year,¹ statistics indicate a steady progress :—

(ALL-INDIA FIGURES)

Years.	Number of Societies (1,000)	Number of Members (Primary Societies) (Lakhs)	Working Capital. Rs. (Crores)
Average for 5 years ending 1914-15	12	5.5	5.48
" " " " " 1919-20	28	11.3	15.18
" " " " " 1924-25	58	21.5	36.36
" " " " " 1929-30	94	36.9	74.89
" " " " " 1934-35	1.06	43.2	94.61
" " " " " 1939-40	1.17	50.7	104.67
For the year ... 1942-43	1.46	69.1	121.14

As regards the position of individual provinces, the table² given below indicates the extent of development that has taken place :—

YEAR 1940-41

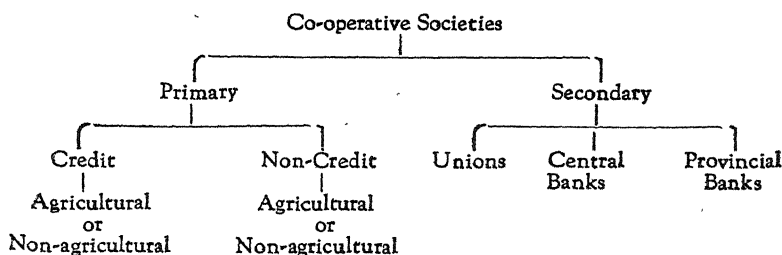
Province	Number of Societies per 100,000 inhabitants.	Number of Members of Primary Societies per 1,000 inhabitants.	Number of Annas of Working Capital per head of Population.	Population (Millions)
Madras	29.2	24.0	81	49.3
Bombay	25.3	30.9	130	20.9
Sind	29.5	15.1	107	4.5
Bengal	67.0	21.4	56	60.3
Bihar	22.8	6.3	20	36.3
Orissa	31.2	12.3	23	8.7
U.P.	30.6	14.8	10	55.0
Punjab	91.8	36.4	88	28.4
C.P. and Berar...	29.4	6.0	48	16.8
Assam	15.0	5.6	12	10.2
N.W.F.P.	31.5	11.6	13	3.0
Coorg	156.0	109.7	167	0.2
Ajmer-Merwara	126.5	37.0	170	0.6

1. Statistical Statement Relating to Co-operative Movement in India. Published by Reserve Bank of India, (1940-41).

2. "Statistical Statement," op. cit.

Hyderabad Administered Area	...	20.0	146.9	531	0.1
Delhi	...	44.0	22.2	70	0.9
Total British India	...	42.1	19.0	53	295.2
Total Indian States ¹	...	41.3	17.5	39	44.2
Grand Total	...	41.9	18.8	52	339.4

3. Agricultural Co-operative Credit : The following diagram explains the structure of the co-operative system in India :—



Primary Societies may be thus classified :—

- (1) Agricultural Co-operative Credit Societies.
- (2) Agricultural Co-operative Non-credit Societies.
- (3) Non-Agricultural Co-operative Credit Societies.
- (4) Non-Agricultural Co-operative Non-credit Societies.

The following table gives an idea of the relative importance of each type :—

PRIMARY SOCIETIES IN INDIA²

Year	Credit		Non-credit		Total
	Agri.	Non-agri.	Agri.	Non-agri.	Agri. Non-agri.
1939-40	...	101,401 + 6,951	17,343 + 9,795	118,744 + 16,746	135,491
Total	...	108,252	27,139	135,391	141,165
1940-41	...	104,084 + 7,071	19,639 + 10,371	123,723 + 17,440	141,163
Total	...	111,155	30,010	141,165	

Note the preponderance of agricultural co-operative credit societies.

1. The States included are : Mysore, Baroda, Hyderabad, Bhopal, Gwal Indore, Kashmir, Travancore and Cochin.

2. More recent figures not published in detail.

4. Agricultural Co-operative Credit Societies: A primary agricultural credit society can be formed by ten or more persons (maximum 100) by applying for registration to the Registrar of Co-operative Societies. Each province has one such Registrar who is the head of the Provincial Department of Co-operation. The area of operation is usually a village to ensure mutual knowledge and supervision on the part of members. The liability of members is unlimited to inspire confidence in the minds of the outsiders and to stimulate mutual control and supervision among the members. The working capital is derived from entrance fees, deposits, share capital, if any, of the members. Share capital is issued only in the Punjab, U. P. and Madras. Capital is also secured from outside—loans and deposits from government, from other societies and from Central and Provincial Banks.

Loans are given to members for (i) production purposes like (a) short-term credit for current agricultural operations and (b) long-term credit for permanent improvement of land; (ii) for unproductive purposes in moderate amounts, e.g., for marriage ceremonies, etc.; and (iii) for redemption of old debts. Loans are usually given on personal security and sometimes on security of property, etc. Repayment is allowed in easy instalments. In the case of disputes, arbitration is provided for to discourage litigation. The Registrar can dissolve a society if it does not improve its working in spite of warnings.

Every society is required by law to build up a reserve fund to which all profits are credited in the case of societies with no share capital. In the case of others, 25 per cent of profits is carried to this fund. Ten per cent of the profits, if the Registrar allows, can be spent for charitable purposes. Accounts of the society are annually audited by officers deputed by the Registrar. The societies enjoy certain privileges like exemption from stamp duty, registration fee and income-tax. Their shares cannot be attached and they have a prior claim over creditors.

The management is in the hands of two bodies, i.e., the General Committee consisting of all the members and the smaller Managing Committee elected by the General Body. The current business is disposed of by the Managing Committee, e.g., granting loans, admitting new members, etc. The General Committee elects the Managing Committee, appoints the paid secretary, amends by-laws, etc.

At the end of 1940-41, there were 123,723 Agricultural societies in India. Of these 104,084 or 81.3 per cent were credit

societies. Their financial position on 30th June, 1941, stood as follows:

		Rs. Lakhs.
Shate Capital	...	4.15
Reserve and other funds	...	8.50
Deposits	...	2.38
Loans	...	15.49
Total working capital	...	30.53

These figures show that such societies work with about Rs. 14 crores of their own capital (including members' deposits under this head) and they borrow about 17 crores from outsiders. The owned capital is thus about 45.5 per cent of their total working capital. "This proportion is rising steadily as years pass by"¹ The Reserve Fund of Rs. 8½ crores seems quite satisfactory. But the Reserve Fund may be illusory in the sense that they may not always represent surplus assets. "They have in many cases been created without making any provision for bad debts out of the profits of societies and are often invested in the business of the societies."² The finance from external sources play a disproportionately large part. This indicates that the element of thrift in the movement is small. "Indeed the financial distributary system of co-operative credit in this country," says the Reserve Bank Review, "is largely a channel for the flow of Funds from the well-to-do townspeople through the Provincial and Central Banks to the primary societies and thence to the numerous and scattered individual members of societies."³

In addition to the initial weakness the depression of the thirties hit the credit societies hard. Their position was unsatisfactory even at the outbreak of the recent war. At the end of 1939-40 one half of their outstanding loans of Rs. 23.14 crores were overdue. This percentage was 46 for 1940-41. That the Co-operative Credit was contracting was revealed by the fact that during ten years ending 1938-39 there was a drop of 50 per cent (from Rs. 12.55 to Rs. 6.75 crores) in the amount of fresh loans issued to individuals by agricultural societies.

Another indication of the weakness of the movement was that in four provinces over 40 per cent and in three provinces about 25 per cent of the total number of societies fell under D and E Classes (bad and hopeless) and only 10 per cent in six provinces came under A and B Classes (very good and 'good').

1. Indian Year-Book 1943-44, p. 377.

2. Review of the Co-operative Movement, op. cit., p. 6.

3. Ibid, p. 7.

Moreover in 1939-40 "nearly nine per cent of the total number of existing societies in India were in the process of liquidation, the percentage being more than ten in respect of seven out of the eleven provinces, and as much as twenty-eight in one instance."¹ In 1934 Sir Malcolm Darling found that during the thirty years life of the movement as much as 24 per cent of the total number of societies started had gone into liquidation. This percentage varied from 9 in Bengal, to 49 in C. P. and Berar and 73 in Burma. This involved a prodigious waste of time, effort and money.

The immediate causes of the stagnation of the movement was the prevailing economic depression and to some extent the debt legislation. The latter adversely affected the societies because, as already noted elsewhere, in many provinces a member owing a debt to his society can file an application before the Conciliation Board and suspend payment of his instalments until the award is made by the Board and approved by the Registrar, thereby directly freezing the funds of the society irrespective of the ultimate outcome of the application."² Large amounts of Co-operative funds were thus locked up, paralysing the working of the movement. The basic causes of the weakness, however, lay much deeper. The most fundamental was "the indifferent observance of co-operative principles in the previous years of comparative prosperity." We shall come to the basic causes later.

5. Agricultural Co-operative Non-credit Societies : From the table on page 179 it is clear that non-credit societies have not developed to the same extent as credit societies. They were about one-fifth of the total number of societies in 1939-40 and a little more than one-fifth in 1940-41. Agricultural non-credit societies were about one-eighth of the total societies in 1939-40 and about one-seventh in 1940-41. Their slow development has been due to a number of causes: (i) The Act of 1904 made no provision for such societies and it was only after the Act of 1912, that such societies began to be formed. (ii) In other countries—e.g., Europe and America—also the non-credit movement developed later and much slower than the credit movement, due to greater training and experience necessary for running them. (iii) The industrial backwardness of India and illiteracy of the mass of the people also stood in the way. (iv) Finally, credit societies in many cases also took up non-credit functions—such as purchase of implements, seeds and manures, etc.

In recent years, however, non-credit societies, especially agricultural non-credit societies, have been receiving considerable

1. Ibid, p 8.

2. Ibid, p. 9.

attention and have shown good progress. Now they have been introduced over a large field of agricultural operations, e.g., sale of agricultural produce, production and sale of implements and manures, development of irrigation projects, insurance, consolidation of holdings, opening of state-aided dispensaries and schools, introduction of improved methods of cultivation, general village uplift, etc. On the whole, they have done good work in all these fields. A closer co-ordination between the Agricultural, Co-operative and Veterinary Departments can produce more substantial results. It is through the development of this particular line of co-operation that the discoveries and teachings of agricultural and veterinary experts can be brought to the agriculturist in the village. Work of this nature is being done already in Bombay by the District Village Uplift Committees, Taluka Development Associations and the Provincial Rural Development Board. Taluka Development Associations are registered under the Co-operative Societies Act. They do propaganda for introducing better implements, better seeds and improved methods of culture. Better Farming Societies have been established in Bombay and in the Punjab and Madras. And good work has been done under the Rural Reconstruction programme in the Punjab and the United Provinces, especially through the formation of Better-Living Societies. Though their primary object was curtailments of ruinous expenditure on marriages and other social occasions, yet they have also helped in various other matters. They have levelled, paved and swept village lands, promoted sanitation, improved ventilation in houses, repaired drinking wells, stopped waste in farms, etc.

6. Co-operative Marketing Societies : Among the various kinds of agricultural non-credit societies Marketing societies deserve special attention. This is partly owing to the good work done by them in provinces like Bombay and Madras and partly because sometimes more is expected of them than they really can do.

We have already seen in the chapter on marketing that the agriculturist seller suffers from many disabilities which do not allow him to get a fair return for his produce. His indebtedness to the money-lender, his lack of reserves, defective transport facilities, lack of warehouses, lack of information about price movements, corrupt practices in the markets etc., all seem to conspire to defraud him of his fair price. Marketing through co-operative societies has been suggested as a remedy. But too

much should not be expected from co-operative marketing unless measures are taken to improve the fundamental conditions of marketing. For instance, co-operative marketing cannot achieve much unless the agriculturist's dependence on the money-lender is removed, transport facilities are improved and proper warehouses are made available. Moreover, the paucity of trained and honest personnel for co-operative marketing has also been an important handicap.

Apart from these considerations co-operative marketing societies should not be introduced indiscriminately. Before creating a society for marketing of a specified community the conditions of its marketing should be carefully studied. The middleman's charges are not always excessive. In many cases competition has cut the middleman's profits very fine, co-operative marketing in such cases may bring loss rather than gain. It is also necessary to guard against the common notion, "that the cultivator has only to hold up his produce and avoid glutting the market at the harvest time to get a much better return for it."¹ Experience has shown that holding up of produce by marketing societies for such a purpose has resulted in loss more often than in gain. Very expert handling is necessary in such cases.

In spite of these limitations, however, co-operative marketing has made fairly good progress in certain provinces. Cotton sale societies of Bombay are famous. They have set up factories for ginning and pressing of cotton and have organized themselves into sale unions for marketing of cotton. They have set up an example for organization for other marketing societies in Bombay and elsewhere. There are also societies for the sale of gur, tobacco, chilly, mango, paddy, arecanut, fruits and vegetables. The Bombay Co-operative Department has organized a Provincial Marketing Society. In Madras the common form is the loan and sale society. Such societies are co-ordinated by the Provincial Co-operative marketing society started in 1936. Distinctive work in the provinces is done in the field of marketing of sugarcane. These societies not only help the members to realise better prices but they also encourage them to introduce better methods of cultivation. Good progress is also made by the ghee sale societies. Sugarcane societies have also been started in Bihar. In other provinces the progress of co-operative marketing has not been much. In the Punjab there is the Okara Zamindari Sale Societies the members of which are mostly big zamindars. In Bengal sale societies for paddy, sugarcane and fish have been

1. Reserve Bank Review, op. cit., p. 44.

organized. Successful cotton sale societies exist in Hyderabad and Baroda States.

Some of the Provincial Governments have given assistance to marketing societies. In Bombay, Madras and C. P., long term-loans at low rates of interest have been given for construction of godowns. Loan and sale societies of Madras are given subsidies by the Government to maintain adequately trained staff.

7. Single versus Multiple Purpose Society: Recently a controversy¹ has appeared in co-operative circles which demands our attention. The question is whether there should be roughly one society for tackling every separate problem of the cultivator—credit sale and purchase, improved methods and implements etc., or there should be single society which should take charge of all these problems over the area of a single village or a few villages together. So far the typical society in India has been a single purpose society, though some credit societies have performed functions like introduction of better seed and implements etc., and the better living societies also tackle the village problem in its various aspects. The question is, whether the multi-purpose society should be made the typical society. The Reserve Bank of India has strongly advocated the cause of such societies. How the new society will come about and how it will perform its functions according to the Reserve Bank, is shown in the following extract from one of its publications: "Starting with credit for current needs, a society may get the old debts of its good members liquidated through a land mortgage bank, introduce better business and better monetary return by inducing its members to sell their produce co-operatively, ensure their growing of the improved varieties of crops by purchasing seed for them, save on purchases by arranging for the purchase of their other needs jointly and at profitable rates on an indent system without incurring any risk or liability, save litigation expenses by effecting arbitration, improve the outturn of crops by consolidation of holdings, supply of pure seeds and improved implements, supplement the income of its members by inducing them to take to subsidiary industries, introduce better living measures by adopting bye-laws by common consent, which will curtail ceremonial expenditure and remove insanitary habits, provide medical relief, and so on."²

"The comparative failure of usual credit co-operation," in the words of Prof. Beri, "may be largely attributed to the fact

1. See Reserve Bank's Review of Co-operative Movement (1940-41), pp. 20-26; S. G. Beri in Indian Economic Journal (January 1942) pp. 515-531.

2. Reserve Bank of India: Review of Co-operative Movement, pp. 20-2.

that it addressed itself to the solution of the problem of credit only and did not simultaneously take up a campaign against all the causes, which give rise to it and make for unbalanced budget of the farmer."¹ The farmer also does not like too many agencies to deal with. He has been accustomed to deal with the *Sahukar* for his various needs. The multi-purpose society will be best fitted for the task. Because it is necessary that the peasant's psychology of life must be changed, and if this is to be done it is necessary that he should be taken up as a whole man and that all the aspects of his economic life should be dealt with by the same agency."²

Many benefits are claimed for the multi-purpose society: Greater loyalty and sustained interest of members; freedom from the evils of cash economy; wider area of operation hence more economical and efficient management, its utility in the moral uplift movement and the promotion of subsidiary industries connected with agriculture. It can serve as a good agency for the rehabilitation of rural life as a whole; it will have a comprehensive understanding of all the various problems that the agriculturist has to face. In any case a proper co-ordination of the various co-operative activities is necessary even if there are separate societies for each purpose. Multi-purpose societies can do it best.

On the other hand its opponents raise a number of objections against it, (e.g. Strickland at the Registrars' Conference, 1939): That the business ability of the villager may be overstrained; the danger of its becoming cumbersome in mechanism and unintelligible to the simpler members; failure of one line of business may affect other lines. Then there are disadvantages due to the larger area of operations. It is held that on account of the failure on the part of members to secure the necessary mutual knowledge and trust, an essential purpose of the co-operative movement will be defeated. Moreover, a small village unit is regarded necessary as a training ground. Then the limited liability of such a society is also objected to.

In spite of these objections multi-purpose societies are finding an increasing number of supporters. The thirteenth Conference of Registrars of Co-operative Societies held at Delhi in December 1939 passed the resolution "that provinces should experiment with multi-purpose societies to ascertain more clearly the conditions under which they are likely to thrive and the

1. S. G. Beri in *Indian Economic Journal* Conference No. January 1942, p. 516.

form which they should take with special reference to their area of operations, liability and purposes." The Madras Committee on Co-operation also favoured the idea. Such societies have worked successfully in other countries and with better education and training of the staff many of the disadvantages of this form can be avoided. But its limitations should not be lost sight of. "While we should appreciate the possibilities of employing it (multi-purpose society) under limitations to good purpose," says Sir T. Vijayaraghavachariar, "we should not cherish the illusion that it is going to change the farmer's psychology and outlook on life. An intellectual revolution like that is not accomplished by change in machinery."¹

Multi-purpose societies, however, have been introduced in an experimental way in U.P., Bengal, C.P., Bombay and among the states in Baroda and Mysore.

8.—Non-Agricultural Co-operative Credit Societies. Such societies are found in the urban areas and follow the Schulze-Delitzsch² model—large membership, limited liability, high dividends etc. These societies have taken the following main forms in India :

(i) *People's Banks*.—They are meant specially for the benefit of the middle-classes and are found chiefly in Bombay and Madras provinces. In Bombay their activities are co-ordinated by the Co-operative Banks Association. They help local trade and small artisan industries. The Madras Committee on Co-operation made several recommendations to improve their usefulness.

(ii) *Thrift and Life Insurance Societies*.—The Punjab, Bombay and Madras have made fair progress in these societies. They collect small savings and encourage thrift. The bulk of the members of such societies (numbering about 1,000) in the Punjab are school-masters.

(iii) *Societies for Employees of large firms and Government Departments*.—Their object is to encourage thrift and savings among the small salary earners. They have made good progress in Bombay and Bengal and some progress in Madras. Their success is due to high degree of literacy of members and their fixed incomes.

(iv) *Communal Societies*.—These are formed among, and are useful for the education and uplift, of backward communities and castes.

1. Quoted by S. G. Beri, op. cit., p. 526.

2. See back p. 195 for the Principles of Schulze-Delitzsch model.

(v) *Artisans' Societies*.—Most of them are formed by weavers, others are the basket-makers, shoe-makers, carpenters, etc. They usually follow the Raiffeisen model like the agricultural societies, and have made good progress in Bombay.

(vi) *Societies for Factory Workers*.—They provide cheap credit, promote thrift and carry on other social and educational activities among the mill-hands. Indebtedness, illiteracy and migratory habits of such workers stand in the way of the development of such societies. They are mostly found in Bombay, Madras and Calcutta.

(vii) *Societies for Depressed Classes*.—Their aim is to improve the economic conditions and raise the social status of the Depressed Classes. They have not met with much success due to inadequate earnings of these classes and the tyranny and corruption to which they are subjected. The working of urban credit societies on the whole has been satisfactory. There is, however, still considerable scope for improvement. The Madras Committee on Co-operation suggested continuous drive by urban banks for greater encouragement of habit of thrift through such devices as "day deposits thrift certificates" and "hundi box and home safe."

9. Non-Agricultural Co-operative Non-Credit Societies: These societies have made only a small progress and have taken mainly the following forms:—

(i) *Artisans' Societies for Purchase and Sale*.—An excellent example is the handloom industry where co-operative societies help the weavers in the purchase of raw materials, employment of improved looms and sale of cloth directly to consumers. They have shown good progress in Bombay, where the Government has helped co-operative weaving by running weaving schools under the Co-operative Department since 1935. District Industrial Co-operative Associations have been established by the Government to help in the supply of raw materials, purchase of looms and sale of handloom products for the weavers. The controlling authority of the new marketing is a Joint Board consisting of the Director of Industries and the Registrar Co-operative Societies. Schemes of marketing of handloom products have also been introduced in some other provinces with fair success. Some progress on similar lines is also made in the case of artisans like shoe-makers, goldsmiths, cane workers, etc. The war has helped the cottage industries considerably.

(ii) *Unskilled Labourers' Societies*.—These are chiefly found in Madras. They undertake contracts for earth work, road repairs,

etc. Mismanagement and opposition of private contractors are the chief difficulties in their way.

(iii) *Consumers' Societies in Urban areas.*—Though the movement of consumers' stores has not made much progress in this country in urban areas, yet it has made some progress. Such stores exist in Bombay, Madras, and the United Provinces. Some are attached to colleges, hostels and are well managed. Railway stores also have succeeded well. The chief difficulties in the way of the development of such societies are: Want of loyalty on the part of members and lack of good management and proper supervision; and small margin between wholesale and retail prices to attract consumers; strong outside competition; absence of a large class of people with settled periodical incomes, etc. The movement has received a fillip in Madras due to the needs created by the war.

(iv) *Co-operative Housing Societies.*—In towns like Madras, Mysore and Bombay, beginnings have been made in the direction of co-operative housing. In the town of Bombay such societies have been organized under the auspices of the Bombay Co-operative Housing Association for the benefit chiefly of middle-class communities. Such societies are usually of two types, (a) those which buy land in common and assist members with technical advice, purchase of materials, etc., for building their own houses, (b) those that build houses and charge rent from members to cover cost of construction over a long period. Government in India assists house-building societies with grant of loans as well sometimes of a free site.¹

10. Central Societies : So far we have been concerned only with primary societies. Now we come to the secondary societies which are formed to organize, supervise and finance the primary societies. These are Unions, Central Banks and Provincial Banks. The following table shows their relative numerical strength and importance :—

	Number	1940-41 Working capital Rs. Crores	Membership	
			Individuals	Societies
(i) Union ..	466	15.96	...	28,569
(ii) Central Banks	601	29.32	79,834	121,292
(iii) Provincial Banks ...	10	13.89	4,537	18,838

Membership of Unions is open only to societies, but in the case of Central Banks and Provincial Banks the members may be individuals as well as societies.

1. Reserve Bank Review, op. cit., p. 67.

(i) *Unions.*—Unions may be of three kinds :

- (a) Guaranteeing Unions (as in Burma and Bombay in the past).
- (b) Supervising Unions (as in Madras and Bombay).
- (c) Banking Unions (as in the Punjab).

Unions are federations of societies within a certain area, managed by a committee representing the member societies. Guaranteeing unions guarantee loans given by the Central Banks to member societies. The unions perform the function of supervision of primaries and also serve as banks between them and the central financing institutions. The system of supervision has not been found satisfactory. It is superficial and overlaps with the work done by the inspecting staff of the financing agencies. A banking union could do the work of supervision in addition to finances.

(ii) *Central Co-operative Banks.*—The central banks have been organized since the passing of the Co-operative Societies Act, 1912, to finance the primary societies and to act as their balancing centres. Such banks make it possible to draw capital from a larger field for the benefit of primary societies. They also help in adjusting and balancing the excesses and deficiencies of working capital of primary societies within the area of their jurisdiction. Besides financing societies, they do other banking business like accepting deposits, collecting bills, cheques, etc. In some provinces they also advance loans to individuals against real property. Their area of operations varies in various provinces. It may be a tehsil, a taluka or a district. Central banks may be mixed or pure. Membership of mixed central banks is open to individuals as well as to societies, and the pure type is a truly federal central bank, and admits only societies as members. Mixed kinds are more suitable to Indian conditions at present but the pure type should be the ideal. Pure types are found in the Punjab and Bengal and are generally called Banking Unions.

As regards their actual working, in Bombay, Madras, and the Punjab, they are comparatively in a sound position. But in Bengal, Bihar, Orissa, and C.P. and Berar their condition is not satisfactory. "Many central banks in these provinces had to close their doors owing to inability to meet the withdrawals of deposits."¹ In general such banks show excessive overdues and bad debts which in many cases exceed owned funds of the central banks. Their failure in some provinces has been due to reckless over-financing.

1. Reserve Bank Review, op. cit., p. 12.

of societies; inefficient supervision, disregard of sound banking principles and defective organization of the primary units.

(iii) *Provincial Co-operative Banks*.—They are apex banks which finance, co-ordinate and control the working of central banks in each province. They serve as clearing houses of the excesses and deficiencies of the working capital of central banks. They serve, moreover, as a link between the general money market and the co-operative primary societies in the villages. Generally speaking, the apex bank does not deal directly with primary societies but through central banks, except in areas where central banks have not developed. In Sind, since central banks have been amalgamated with the Provincial Bank, the latter deals through its branches directly with the village societies. The constitution of provincial co-operative banks also vary in different provinces. In Bombay, Sind, Madras, C.P., Berar, Bihar and Assam the membership is open to societies and individuals; in Bengal and the Punjab only societies can become members. Their financial position is on the whole much sounder than that of the central banks.

The need for an All-India Co-operative Bank was stressed by the Maclagan Committee. But since then opinion in this regard has undergone a change, due to superfluous resources available with the provincial banks, the accommodation available with the Imperial and other banks and to the fact the co-operation is now a provincial subject and wants development on independent lines according to local conditions. Moreover, provincial inter-lending on spontaneous basis has developed, assisted by the Indian Provincial Co-operative Banks Association. Finally, the need for an all-India apex bank is not so great now because of the establishment of the Reserve Bank of India.

11. Reserve Bank and Agricultural Finance : The Reserve Bank does not directly finance agricultural operations on account of the great financial responsibility on this central institution and the risky character of agriculture as a business. Indirectly, however, the Bank is doing useful work by creating conditions favourable for financing of agriculture, by giving expert advice and by publication of useful literature relevant to the problem of agricultural co-operative finance. Thus :—

(i) The Reserve Bank of India Act (1934) allows the Bank to sell and rediscount agricultural bills and promissory notes endorsed by a scheduled bank or a provincial co-operative bank, drawn for the purpose of financing seasonal agricultural operations, or the marketing of crops, and maturing within nine months.

(ii) It is further authorized to make loans and advances for ninety days to provincial co-operative banks, and central land mortgage banks (declared to be provincial co-operative banks), and through them to co-operative central banks and primary land mortgage banks, against specified securities, *viz.*, Government paper and certain approved debentures and approved promissory notes.

(iii) The Bank has established an Agricultural Credit Department whose function it is to study all questions of agricultural credit and offer expert advice to Government and Co-operative banks, and to co-ordinate the operations of the Bank in connection with agricultural credit and its relations with provincial co-operative banks and any other institution engaged in agricultural finance. This Department submitted its Statutory Report on Agricultural Credit to the Government in 1937, and since then has issued a number of bulletins on the working of the co-operative movement in certain localities and has published an all-India Review of the Co-operative Movement.

This is useful work, but a considerable weight of popular opinion would like to see the Reserve Bank less conservative in its policy towards agricultural finance. No doubt the Bank cannot supply normal finance to any of the credit agencies, it should come into the picture as a lender of last resort, when ordinary sources of commercial credit appear inadequate for seasonal demands of business. Like the commercial banks the co-operative banks must ordinarily stand on their own legs. The Bank, moreover, must insist that co-operative banks should follow sound banking principles and keep the Bank informed of their position by periodical statements. The Bank does issue instructions and advice to co-operative banks by issuing circular letters from time to time. So far so good. But popular view would like to see the Bank giving more direct and adequate help to agriculture through co-operative agencies. For instance, the Bank does not grant at present cash credit facilities to co-operative banks. This is regarded by some writers as an ultra-conservative view. It is also suggested that the scope of the functions of the Agricultural Credit Department should be extended, and early steps should be taken to bring the indigenous bankers directly within the orbit of the Reserve Bank.

12. Non-official Co-operative Agencies : In recent years certain non-official co-operative agencies have come into existence to serve as focus of co-operative activity, and clearing houses of information about co-operative problems, arising in the various

provinces, to further co-operative education and to advance the interests of the co-operative movement in a variety of ways. Some of these are noted below :

(i) The Bombay Provincial Co-operative Institute is recognised under the Bombay Co-operative Societies Act (1925). It serves to focus the co-operative activities of the province, and holds provincial co-operative conferences. The Government gives the institute a grant for its work of training and publication of co-operative literature. Its main function is to impart co-operative education which function it shares with the Government. The Bombay Government is thinking of reorganizing the institute under a new constitution. Its main function will be to impart co-operative education to members of co-operative movement. It will also serve as a centre to focus non-official opinion on subjects connected with the movement.

(ii) Since October 1929, there also exists an All-India Co-operative Institutes Association which seeks to promote and extend the co-operative movement through the member institutes and gives them advice and assistance on co-operative matters.

The Indian Provincial Co-operative Banks Association is another all-India co-operative organization. Its object is to further common interests in matters of finance, legislation and administration.

13. Achievements of Co-operation : The co-operative movement has been subjected to the searchlight of criticism by various writers, committees and commissions. Apart from the various committees on co-operation appointed by the various provinces and the MacLagan Committee, views have been expressed in this connection also by the Agricultural Commission and the Central and Provincial Banking Enquiry Committee. The achievements of the movement and its possibilities have obtained high praise on the one hand, and on the other by some writers it has been regarded as an utter failure, to be liquidated at the earliest moment. Among the achievements¹ claimed for the moment are :

1. Below are given views of some authorities regarding the achievements of the movement :—

“Knowledge of the co-operative system is now widespread ; thrift is being encouraged ; training in the handling of money and in the elementary banking principles is being given, where the co-operative movement is strongly established, there has been a general lowering of the rate of interest charged by the money-lender, the hold of the money-lender has been loosened, with the result that a marked change has been brought about in the outlook of the people.” (Agricultural Commission).

(i) That it has led to an all-round reduction in the rates of interest in the rural areas.

(ii) That it has encouraged the habit of saving and investment.

(iii) That it has led to the decrease in consumption borrowing.

(iv) That it has contributed to the growing morality and independence of outlook among the cultivators.

(v) And, finally, that it has created an increasing interest in rural matters in the minds of urban capitalists and workers.

To this the critics of the movement reply that many of the above results are qualitative and hence difficult to measure, and that, even if such results have been achieved, they are associated only with the best societies, the number of which is not great. On the other hand, they emphasize the fact that the co-operative movement in India has been almost exclusively occupied with the problem of rural credit and even in that field its achievements are not very remarkable. Even the official body like the Central Banking Enquiry Committee had to admit that "there is very little evidence about the reduction of total indebtedness through the agency of the co-operative credit societies, for they are not in a position to finance the agriculturists adequately for the discharge of old debts." The various Provincial Banking Enquiry Committees also noted that only a small percentage of the current needs of agriculture is supplied by co-operative societies. It is further pointed out that the official figures of the number, membership and capital of the societies are unreliable.¹ Even on the basis of these figures, the movement has only touched a small² proportion of the total population of India.

This criticism contains a substantial element of truth. But considering the limitations under which the movement has

"It is difficult to give conclusive evidence of this (moral progress) as the signs of moral progress are too elusive to be pinned down in a statement of facts, but for all that they are unmistakable to close observers of the movement. Lirigation and extravagance, drunkenness and gambling are all at a discount in a good co-operative society; and in their place will be found industry, self-reliance and straight dealing, education and arbitration societies, thrift, self-help and mutual help (M. L. Darling).

1. For examples of defective presentation of figures see S. K. Iyengar's article in *Economic Journal*, January 1942, pp. 406-408.

2. See back, Table on p. 178.

"All that has been done amounts only to a scratching of surface" (Sir M. Visvesvaraya).

developed in this country, it has made remarkable progress and has resulted in a lasting benefit to the Indian peasantry. Owing to cheapness of credit that it has made available, it has resulted in savings for the agriculturist which are estimated at about one crore of rupees. It has restricted debts by establishing a system of controlled credit and has weakened the vicious system of money-lending, that used to prey upon the ignorance of the peasant. Non-credit side of the movement is also receiving increasing attention, and it has conferred considerable moral and material benefits on the rural classes.

14. Defects of the Movement : This, however, does not mean that serious defects do not exist in the working of the movement. Among the alleged defects¹ are :—

(a) Want of due supervision ; (b) undue delay in financing ; (c) financing more on the basis of assets than on paying capacity ; (d) indiscreet loans ; (e) contumacy of borrowers ; (f) unpunctuality in repayment ; (g) restriction of loans to a few favoured individuals ; (h) dishonesty and incompetence of Government, bank and society officials ; (i) bad selection of members ; (j) membership spread over too large an area ; (k) concealment of old debts ; (l) faulty constitution ; (m) internal dissensions ; (n) inadequacy of funds ; (o) preponderating influence of one or a few members ; and (p) general lack of interest of members in the affairs of the society.

Further, the following are pointed out as the dangers of the movement :—

(i) The tendency to officialize the movement too much, and leave too little to private initiative ;

(ii) the eagerness of too enthusiastic organizers to rush the pace of the movement at the expense of intensive development ;

(iii) the opposition of the money-lending class, which has been growing in persistence ;

(iv) a few of the members monopolize the work and leave too little room for the incentive of others ; and

(v) abuse of power in the collection and distribution of funds.

The above-given defects and dangers are merely symptoms of the basic of shortcoming—i.e., the absence of the co-operative spirit. In Western countries much more is expected of co-operation than mere material well-being through the supply of credit

1. S. K. Iyengar, op. cit., pp. 401-2.

and other needs of the farmer. It is expected to transform the whole human being, his personality, character, attitude to the community and attitude to life."¹ Co-operation in the West has to a large extent realised these expectations. Co-operation in India has utterly failed to achieve anything of this sort. What is the reason? The basic reason is that there are certain conditions which are necessary for its success. These conditions are present in countries where co-operation has worked successfully; they are absent in India.

15. Conditions of Success : The most remarkable results have been achieved by co-operation in Denmark. Some people think, what Denmark can achieve India should also be able to achieve. But, as has been pointed out by Sir John Russell, "four essential conditions of success are all present in Denmark :—

(1) The village population is homogeneous; there is nothing corresponding to caste distinctions.

(2) The cultivators are literate.

(3) From the outset People's High Schools were set up where cultivators were taught better living both in the home and the village and where ideas of corporate responsibility in village and national life were inculcated.

(4) The co-operative societies are mostly trading societies, taking over the produce from the cultivator, working it up into marketable form and selling it for him. Also they supply him with all materials for use in the home and on the farm. They are merely financed by the local banks and members are jointly and severally liable for the loan. As depositors the members provide a substantial part of the funds; it is their own money that is lent to members, and in consequence each borrower feels himself under the necessity of repayment."²

All these conditions are absent in India. Indian society is not homogeneous; castes and creeds divide it into exclusive if not warring groups with contradictory aims. The percentage of literacy in rural areas is negligible. There are no educational institutions corresponding to the People's High Schools of Denmark. Corporate responsibility is entirely absent. The cultivators are too poor to be able to provide a substantial part of the funds of local banks. Those who have money are afraid of losing it since liability is unlimited.

1. Co-operative Action in Rural life: Survey by International Labour Office, p. 30.

2. Russell Report, p. 63.

In fact one of the chief cause of the slow growth of co-operation in India is the meagre incomes of the masses. A vast majority of the peasants lack means even to become members of the societies. In the words of the Bengal Provincial Banking Enquiry Committee "at the one end of the scale there are people who are so well off that they do not desire to incur the risk of unlimited liability by enlisting themselves as members. At the other end there are persons who are so poor that they are refused membership. It is, therefore, not unfair to assume that the co-operative population represents the medium agricultural population."¹

But should we despair about the future of the movement? Not at all. For one thing co-operation short of wholesale socialism is the only hope of our rural masses. We must make the best of it in spite of adverse character of the environment. That co-operation can succeed in this country is evident from certain excellent results achieved by some provinces, especially in the non-credit field. Cotton and gur sales societies of Bombay, consolidation of holdings societies of the Punjab-sugarcane supply societies of the United Provinces and Bihar and irrigation societies of Bengal, can bear comparison with the best of their kind in the world. With the spread of education and greater co-operative experience, with the transfer of larger powers into the hands of the common people and greater social reform, there is no reason why co-operation should not achieve a marked success in this country. In the meantime certain immediate reforms have been suggested by the Agricultural Credit Department of the Reserve Bank of India. These may be noted.

16. Suggestions for Improvement : The need for reorientation of the movement is more urgent now than ever. The recent rural legislation, regulating and controlling the activities of the money-lender, has tended to reduce the credit of the agriculturist with the money-lender, and it is necessary that alternative sources of credit should be made more effectively available for the various legitimate needs of the peasant. The publications issued by the Agricultural Credit Department of the Reserve Bank have made some valuable suggestions in this connection which may be taken note of :—

(i) Separation of overdue and long-term loans of co-operative societies from short-term loans and putting them on a proper footing. This involves scaling down of overdues and arranging for their payment either by sale of the members' assets or through

1. B.B. Enq. Com., Report, p. 69.

the agency of land mortgage banks, making payment possible by means of instalments over a period of years. In the meantime, fresh finance should be supplied for cultivation and other necessary expenses, preferably in kind.¹

(ii) Societies should build large reserves by increasing the margin between borrowing and lending rates in order to enable them to tide over unfavourable seasons and to meet unexpected losses. Here caution is necessary because too high a rate might be beyond the paying capacity of the peasant.

(iii) Loans should, as far as possible, be given only for productive purposes. For other needs, only the smallest minimum should be allowed, though care should be taken that too much rigidity in this connection does not throw the cultivator on the mercy of the money-lender.

(iv) Reconstruction of the primary credit society to make it a multi-purpose society is also recommended. We have already examined this subject in a previous section.

(v) It is suggested that primary societies should be federated into small Banking Unions (as at Kodinar in Baroda State). This will economize energy and avoid waste, because the functions of finance, supervision and education, which are now in the hands of a number of agencies, will be concentrated in the hands of one agency.

(vi) Special emphasis is laid on the development of co-operative marketing of agricultural produce. The development should start from the bottom, primary societies taking up the joint marketing of the produce of their members, these further to be linked up with larger central sale societies.

(vii) The central and provincial co-operative banks should be reorganised. "The larger and unwieldy central banks should be split up into suitable banking unions, even if the central co-operative bank is to be retained." The central banks should guide and assist the primary societies in their operations and the training of the members in the principles of co-operation. Similarly, the provincial banks should play a larger part than hitherto in the direction of guiding the movement. These central institutions, moreover, should maintain adequate liquid reserves and should establish closer contacts with first-class commercial banks, to be greater service to the primary societies and the movement as a whole.

9. Reserve Bank's Review, op. cit., p. 16-17.

(viii) Finally, arrangements should be made for intensive training of the staff of the co-operative departments in the principles of co-operation, rural economics and banking.¹

Even after having been thus reorganized, the co-operative movement will require the establishment of social institutions to meet the demands for long-term credit.

17. Long-term Credit: The agriculturist requires long-term credit principally for two needs. *i.e.*, for settlement of old debts and for land improvements. We see that the Government gives loans for land improvements under the Land Improvement Loans Act, 1883, but owing to various reasons such loans are not adequate for this purpose. Moreover, this does not provide for loans for settlement of old debts. The ordinary primary co-operative society is not fitted by its very constitution to provide long-term credit. Its resources are limited and cannot be locked up for long periods. The need for long-term credits has become specially urgent due to the various debt conciliation schemes, introduced in recent years by legislation, in order to free the peasant from the burden of ancestral debt. One solution, which is now being increasingly recommended, is the establishment of Land Mortgage Banks, especially of the co-operative type.

A land mortgage bank is an institution which gives loans on the security of land mortgaged with it. The loan is as a rule for long periods. Such a bank may be organized as a co-operative bank, a non-co-operative bank or a quasi-co-operative bank, the last combining features of a co-operative and a commercial institution. Most of the Indian banks are quasi-co-operative. The co-operative type is the ideal, but in order to attract business talent and larger amounts of capital from bigger capitalists, non-borrowing persons are allowed to hold shares and limited liability is introduced. Valuation of land is effected to trained officials lent by the Government and loans require the previous sanction of the Registrar.

The credit for the establishment of the first co-operative land mortgage bank goes to the Punjab, in which province such a bank was established in 1920 in Jhang. In the next ten years their number increased to twelve, but since the depression it has been reduced to ten. The banks have not proved very successful in the Punjab. "The success of land mortgage banks," says the Reserve Bank's, "Review," depends to a considerable extent on accurate assessment of the value of the land offered as security and the annual repaying capacity, adjustment of loans and the

1. For details see Reserve Bank's Review, chapter VII.

terms of repayment thereto and the recovery of the instalments punctually.”¹ The depression led to the fall in land values, and also the extent of the Land Alienation Act, according to some critics, has contributed to their failure. Add to this the default of the directors and honorary workers, who were themselves large borrowers. The question of their reorganization is receiving the attention of the Government.

Steps have also been taken in other provinces to introduce such banks. In Bombay there are 17 such institutions working in selected districts. In the C. P. ten such banks were established by the Government (guaranteeing capital and interest to the extent of Rs. 50 lakhs) in 1935, and eleven more have been started since. The most remarkable progress has been made in Madras, where there are 119 land mortgage banks now at work. Bengal, Assam and the United Provinces each possess five and Orissa has only one.

In organizing land mortgage banks care should be taken that the constitution and working should be simple, management efficient and punctual and money should be advanced only if it is likely to be really profitable to the borrowers. This is necessary in the interest of holding the confidence of the public. The State can ensure their success in many ways : by giving guarantees for the repayment of principal and interest on debentures, by purchasing a portion of debentures, by granting special facilities and privileges similar to those enjoyed by co-operative societies, etc.

It should be particularly noted that land mortgage banks have serious limitations and too much should not be expected from them. Firstly, it is not possible for them to transfer to themselves the entire burden of agricultural debt. They work under certain necessary restrictions as to the maximum limits of loans they can advance, they require security of landed property and have to select borrowers carefully. Secondly, such banks can only reduce the burden of debt, they cannot remove it altogether. Unless the agriculturists themselves act prudently and exercise thrift and caution as regards their unproductive expenditure, it is impossible to save them from the burden of debt. The Reserve Bank,² in fact, has sounded a note of caution regarding the almost exclusive attention that is being paid to the reduction of old debts. Long-term credit should be increasingly made available for permanent agricultural improvements, which alone can solve the problems of the peasant's poverty.

1. *Ibid.* p. 38.

2. *Ibid.*

CHAPTER IX

THE STATE IN RELATION TO AGRICULTURE

1. Introduction : What part does the State play in relation to Indian agriculture? In every country the State has to perform the basic functions of preserving law and order, recognition of rights in property and enforcement of contracts. Without such protective activities no economic life is possible. We have already discussed some of the functions the State performs in relation to Indian agriculture, apart from the above basic functions. The State has constructed huge irrigation works, extensive roads and railways; it provides credit for agricultural improvements, though on a limited scale; it has initiated, and it controls and supervises, the co-operative movement; and it has passed many legislative measures for the protection of the tiller of the soil from the money-lender and the landlord. Moreover, through its Medical, Public Health and Veterinary Departments, it seeks to preserve and improve the health of the agriculturist and his livestock. With reference to the latter, it has established and maintains special cattle-breeding farms to improve the breeds. The Education Departments also do their little bit to spread literacy in the rural areas. There are certain activities of the State, however, that still remain to be discussed, and discussed with a certain amount of detail. Such activities are :—

(a) *Activities in connection with the improvements in the methods of carrying on agricultural operations.*—They are undertaken primarily by the Provincial Agricultural Departments with valuable help from the Central Government agencies and institutions. These involve (i) agricultural research, with regard to seed, manure, implements, pests and diseases, etc.; (ii) agricultural education, aiming at producing agricultural research workers, officers for the Agricultural Departments and practical farmers; and (iii) popularization of results achieved through research by propaganda, distribution of seeds and implements, etc.

(b) *Rural Reconstruction.*—This is an activity of a wide scope involving both official and non-official effort. It aims at raising the material, mental and moral level of village life as a whole. It involves, through suitable agencies, bringing to the door of the villager in a practical form, the benefits that the various beneficent departments of the Government can confer on him.

(c) *Famine Relief Policy*.—This involves the relief of distress among the rural classes arising out of the failure of crops due to failure or scantiness or untimely rainfall or any other reason.

(d) *Land Revenue Policy*.—This concerns primarily not what the State gives to agriculture, but what the State demands from it. But it may have a relief aspect, when during periods of agricultural distress, the State may reduce, suspend or remit the land revenue charge. In fact, the land revenue policy has a lot to do with agricultural prosperity.

Let us take the Agricultural Departments first.

2. Evolution of Agricultural Departments: The idea of establishing a "Department of Agriculture was mooted as early as 1866, but it was not until 1870 that the Department of Agriculture, Revenue and Commerce" was created by the Government of Lord Mayo. Due to lack of sympathy from Whitehall, however, this Department gradually degenerated into a Revenue Department, and was finally absorbed in the Home Department.

In 1880, at the recommendation of the Famine Commission, the Central Department of Agriculture was re-established, and also, provincial departments were created. The provincial departments concerned themselves at first with agricultural statistics. Experimental farms, however, were opened at Saidapet (1871), Poona (1880), Cawnpore (1881), and Nagpur (1883).

In 1889, Dr. J. A. Voelcker of the Royal Agricultural Society was appointed to enquire and report on the improvements of Indian agriculture. His monumental Report appeared in 1893. He emphasized the need for better irrigational facilities and the use of better manures. He attributed low productivity to smallness of holdings, want of capital, rural indebtedness and defective land tenures. He laid stress on the need for detailed scientific investigation regarding agricultural practice in India. He gave a warning against the belief that Western knowledge could simply be grafted on Indian practices. This report was followed by some appointments to the scientific staff of the Imperial Department of Agriculture.

In 1898 Sir Frederick Nicholson suggested that the Government should turn from agricultural enquiry to agricultural improvement. In 1901 the Famine Commission opined that "the steady application to agricultural problems of research is the crying necessity of the times." The Commission recommended: (i) a strengthening of the staff of Agricultural Departments in all provinces (ii) further legislation on the lines of the Punjab Land

Alienation Act 1901 (iii) introduction of co-operative credit societies on German lines. The Irrigation Commission of 1903 also emphasized importance of agricultural research and improvement.

In the meantime in as early as 1890 an Agricultural Chemist to the Government of India had been appointed. In 1901 the first Inspector-General of Agriculture was appointed. The same year was added an Imperial Mycologist. In 1903 an Imperial Entomologist was appointed. The same year an American, Mr. Henry Phipps, donated a sum of £30,000 for scientific research in India. Lord Curzon devoted the greater part of this sum to the establishment of the Imperial Agricultural Research Institute at Pusa.

The reorganization of the Department of Agriculture that took place in 1905 provided for a Central Research Institute at Pusa, completely staffed Provincial Departments of Agriculture, with agricultural colleges and provincial research institutes and an experimental farm in each important agricultural tract.

In 1906 the Indian Agricultural Service was constituted. Other central institutions that were created in subsequent years were: The Imperial Cattle Breeding Farm at Karnal, the Creamery at Anand and the Imperial Sugarcane Breeding Station at Coimbatore. This latter is a branch of the Imperial Institute which was transferred from Pusa to New Delhi after the Bihar Earthquake of 1934.

Institutions and departments were also established in connection with animal health. The Imperial Institute of Veterinary Research at Muktesar started in 1893 as a small laboratory for research on rinderpest later became a fully equipped research institute. The Civil and Veterinary Department was formed in 1891 and was under the control of the Inspector-General until 1912. This department was completely provincialised in 1919. The Government of India, however, continues to finance and control the Muktesar Research Institute and its branch station at Izzatnagar (Bareilly).

3. Agricultural Policy since 1919: Under the Reforms of 1919 agriculture became a provincial transferred subject and the Veterinary Department was also provincialised. The Central Government still had some powers of supervision, direction and control over transferred subjects but it could not incur expenditure from Central Revenues on provincial subjects, except on

1. Agricultural colleges were established at Poona, Cawnpore, Nagpur, Coimbatore, Sabour (closed in 1921), Patna and Mandalay (opened in 1924.)

agricultural research and training of research workers in the Central Institutions. The various Central institutions, however, continued to be under the Central Government.

The provincial ministries during Dyarchy (1921-1937) were not able to do much for agricultural development beyond some extension of irrigational facilities. One of the reasons was that finance was still a reserved subject and thus beyond control. This deficiency was removed by the scheme of Provincial Autonomy which was inaugurated from the 1st of April 1937. But in the meantime from 1930 onwards Indian Agriculture was overwhelmed by the great economic depression. While the need for help in the face of disappearing incomes of the peasantry was great, the government's axe of economy was busy cutting expenditure which affected mostly the nation-building departments including agriculture. Up to the outbreak of the World War II in 1939 the Indian agriculture was still in a depressed state. It had not regained its position of 1929. When the war broke out the attention of the Government was directed to this new emergency.

Our trouble all along has been that from the Reforms of 1919 onwards, while the main responsibility of agricultural development was being shifted from the centre to the provinces, the main expanding sources of revenue were being preserved for the centre, while the provinces had to rely on those sources of revenue (mainly land revenue) which had very little scope for expansion. In fact land revenue burden had to be reduced if full justice was to be done in the distribution of burden of taxes. No wonder, therefore, that the Provincial Governments could do very little to stimulate agricultural progress. The most they have done in recent times is to pass certain protective measures to save the tenant from exploitation by the money-lender, the landlord and the middleman. These measures have been received our attention elsewhere.

An event of great importance for the agriculturist during the period between the two wars was the appointment of a Royal Commission on Agriculture. It is necessary to know something about this commission.

4. The Royal Commission on Agriculture: In the meantime a Royal Commission was appointed in 1926 "to examine and report on the present conditions of Agriculture and rural economy in British India and to make recommendations for the improvement of agriculture and the promotion of the welfare and prosperity of the rural population and in particular to investigate :—

“(a) the measures now being taken for the promotion of agricultural and veterinary research, experiment, demonstration and education : for the compilation of agricultural statistics ; for the introduction of new and better crops and for improvement in agricultural practice, dairy farming and the breeding of stock ;

“(b) the existing methods of transport and marketing of agricultural produce and stock ;

“(c) the methods by which agricultural operations are financed and credit afforded to agriculturists ;

“(d) the main factors affecting the rural prosperity and welfare of the agricultural population ; and to make recommendations.”

The problem of land revenue and land tenure was excluded from the scope of the Commission's enquiry. This was unfortunate. Since these are among the basic problems of Indian agriculture. The Commission issued a comprehensive report in 1928 and since then it has formed the basis of all fruitful discussion and Government action in matters relating to the subject discussed by the Commission.

The recommendation of the Commission cover a very wide field including subjects like subdivision and fragmentation of holdings, improvement of livestock, irrigation, marketing, co-operation, rural education and rural reconstruction. Generally speaking, the aim of the recommendations has been to bring about greater efficiency throughout the whole field of agricultural production. In order to render the business of farming more profitable to the cultivator. They emphasized the necessity of widening the outlook of the peasant and stressed the importance of Government initiative in promoting agricultural progress. One of their basic suggestions was that the rural problem should be tackled as a whole in all its various aspects simultaneously.

One of the most important recommendations of the Royal Commission was the creation of the Imperial Council of Agricultural Research “to promote, guide and co-ordinate agricultural research throughout India and to link it up with agricultural research in other parts of the British Empire and in foreign countries.” This Council was established in 1929. We shall examine its organization and activities in a later section.

5. Organization and function of Provincial Agricultural Departments ; After this brief historical review let us now study the organization and functions of the Provincial Departments of Agriculture. As a rule the Provincial Department of

Agriculture is in the charge of a Minister of Agriculture, who is the political head. The administrative head of the department is the Director of Agriculture under whom there are Deputy Directors, Assistant Directors and Extra Assistant Directors of Agriculture. Below them are Agricultural Assistants and other field workers.

The functions of the Provincial Department comprise the supervision and control of (a) Agricultural Education (b) Agricultural Research, (c) Demonstration and Propaganda, (d) Distribution of improved seeds, implements and artificial manures, etc. Agricultural colleges impart agricultural education both theoretical and practical. They also carry on research on agricultural problems, either independently, or under the guidance of the Imperial Council of Agricultural Research, if the subject is of all-India importance. The research relates to the evolving of better varieties of seed from the point of view of yield and disease and drought-resisting qualities, pests and disease to which crops are subject, better implements and manures etc. The results of this research are then tested on experimental farms, attached to the colleges or the research institutes. The next step is to demonstrate them on model farms or demonstration plots located in the villages. Their success is thus proved to the cultivator under his own conditions. Then arrangements are made to produce and supply the seed, the implements or the manures whatever the case may be to the cultivator. The improved seed is produced on a large scale on Government seed farms or is purchased from private producers if necessary. Similarly implements are manufactured under the guidance of the department. The sale is arranged through stores or depots maintained by the department at convenient places. The help of co-operative societies is also taken, if available, to approach the cultivator.

6. The Indian Council of Agricultural Research: We have already seen how, on the recommendation of the Royal Commission, the Imperial Council of Agricultural Research was established in 1929 to promote, guide and co-ordinate Agricultural Research. This Council works through two organs: (a) A Governing Body to manage the funds etc. and other affairs and (b) an Advisory Board to examine proposals for research and submit them to the Governing Body. Originally the Secretariat of the Imperial Council was constituted a department of the Government of India. Since January 1939, however, the connection between the Government of India and the Secretariat is through the Department of Education, Health and Lands.

There are now two expert officers of the Council designated as the Agricultural Commissioner and the Animal Husbandry Commissioner with the Government of India respectively.

In 1940 an important measure, the Agricultural Produce Cess Act, was passed by the Central Legislature. The object of the Act is to finance the research programme of the Council by levying an export cess of $\frac{1}{2}$ per cent *ad valorem* on certain specified commodities.

The Imperial Council makes grants for specific purposes to universities and Provincial Departments of Agriculture for research along approved lines. The Council usually does not undertake direct investigation but in two cases it has undertaken direct control (i) the cost of production specially of cotton and sugarcane and (ii) statistical control of agricultural experiments. Several schemes of the Council have been carried out through the various institutions and institutes. In the words of the Russell Report, "a vast amount of primary work extending over wide range has been accomplished." The Report recommended that "a stage is now reached when a reorientation of the Council's activities should be reconsidered." The great need of the hour is "a fuller use of existing knowledge rather than the accumulation of mere knowledge, for work on the cultivator's field rather than in the laboratory."

Following the recommendations of the Report the Imperial (now Indian) Council of Agricultural Research has undertaken an examination of the methods of demonstration and propaganda at present in use. It has now put forward a scheme which aims at putting across a whole group of tested improvements simultaneously, instead of one item hitherto, and to observe the combined effect of all these on the cultivator's income and on the land. The improvements will be carried out by the cultivator himself instead of by Government staff as hitherto. The supervision, however, will be by the Government officials.

7. Development Commission: The Russell Report has further recommended that a Development Commission, which could be combined with the Council should be set up. The Commission should plan large-scale improvements and suggest ways of raising the standard of living in the villages. It is recommended that the Commission should take up the following problems :—

(a) Soil conservation, deterioration and loss of soil, exhaustion and manuring, soil erosion, salt, alkali.

(b) Crop production, especially the planning of cropping schemes, the balance between cash, food and fodder crops, the fusion of animal husbandry and agriculture, the improvement of grazing land, the taking of action on the results of marketing and other economic enquiries.

(c) The exploitation of discoveries or processes of commercial importance. The Commission would not itself embark on industrial enterprises, but it would smooth the way for others to do so by helping to bridge the gap between the laboratory and the factory, and by giving information and advice to the commercial body undertaking the work. Seeing that some kind of monopoly would usually have to be granted for a term of years the Commission would advise the Government, on the technical side, as to the terms that could be accepted.

(d) The multiplication and distribution of seeds of approved varieties of crops and of named varieties of trees.

(e) The improvement of village roads.

8. Indian Council's work during 1943-44: According to the latest annual Report of the I. C. A. R. the following lines of work was undertaken during the year 1943-44.

(1) Village schemes to improve the economic and nutritional conditions of the villagers were started in some villages in Bombay, the United Provinces, the C. P. and Berar and Travancore during the year. Each village was placed in charge of an agricultural Assistant who was to receive training in nutrition for about six weeks at the Nutritional Research Laboratories, Coonoor. Other features of the schemes were to help agriculturists to increase acreage, yields and production, by adoption of all proved agricultural improvements and to develop marketing in the villages.

(2) Successful experiments were made in mixed farming in the United Provinces, Central Provinces and Berar, N. W. F. P. and Sind. The results indicated increased income in cash and food crops in the mixed farming units, as compared with the control units.

(3) Experiment in dry farming and conservation of moisture continued in Sind. The introduction of trees to provide shade and fodder for cattle was also included in the investigation.

(4) A special grant of Rs. 1,07,000 was given by the Government of India for improvement of agricultural statistics. This was utilized by (i) initiating an enquiry into the existing system of

preparing agricultural statistics and crops forecasts in the Punjab and C. P. and Berar (ii) for conducting crop costing experiment on the 1943-44 wheat crop in the U. P. and the Punjab.

(5) A purple leaf variety of rice was discovered in the C. P. which can be easily distinguished from wild rice. This will enable the farmers to weed out wild rice and thus save Rs. 65 lakhs per annum. In Assam an improved variety of paddy was distributed among farmers leading to a large increase in yield.

(6) Experiments continued on developing rust resistant varieties of wheat. Research work on diseases and pests of various pulses and oil seeds also continued.

(7) Centres of production of English vegetable seeds were set up in Kashmir and Baluchistan.

(8) The Council received a grant of Rs. 2,25,000 for introduction of the "Bangalore" process of converting town refuse into manure in all important Municipalities of the country. Fourteen officers from the provinces and the States were trained at the Indian Institute of Science. They have started work in various provinces and States.

(9) Attention was paid to increasing the supply of milk by assisting gowshallas, conserving cattle wealth of the country through prohibition of indiscriminate slaughter and maintaining animal health.

(10) Schemes have been invited for reorganizing the Ghee industry. A scheme was sanctioned for manufacture and grading of yellow ghee. Prevention of ghee adulteration also received attention and counteracting measures were suggested to the various governments.¹

9. The Achievements of Research Activities: The Provincial Agricultural Departments and the Indian Council have done useful work in connection with agricultural improvement. This work relates to introduction of better varieties of crops, improved methods of cultivation and manuring, better methods of harvesting and handling, measures taken to deal with locust operations in the production and use of protective *sera* and cattle improvement, encouragement of consolidation of holdings, improvements as regards soil management and the use of fertilizers, etc.

The most important work, however, relates to the improved quality seed of the various crops. The latest available figures show that area under improved varieties of crops in British India

1. Indian Information : March 1945, pp. 302-305.

is about 23 million acres. This is about 10 per cent of the total sown area. In the Indian states this percentage is only 1·3. But the percentage varies considerably as regards individual crops as the following table shows :

PERCENTAGE AREA UNDER IMPROVED SEED

Crops	...	British India	Indian States	All India
Rice	...	5·3	1·5	5·1
Cotton	...	34·5	5·0	25·0
Wheat	...	24·9	1·3	20·7
Jute	...	62·5	...	62·5
Sugarcane	...	76·6	7·2	71·1
Groundnuts	...	3·4	10·2	5·0

According to Sir Bryce Burt, ex-Vice Chairman, Indian Council of Agricultural Research, the achievements in this connection during the decade following Agricultural Commission were¹ :—

(i) The average yield of cotton in the quinquennium 1932-37 was 108 lbs per acre as compared with 96 and 95 in the two previous quinquennial periods. As for the change in quality in the three years 1927-28 to 1931-32 short staple cotton, *i.e.*, below $\frac{3}{8}$ " formed 75 per cent of the whole and medium staple 25 per cent while 1938-39 the figures were : short staple 63 per cent, medium staple 32½ per cent and long staple 4½ per cent.

(ii) In the case of Jute in 1937-38 the areas under departmental varieties was 1,763,000 acres out of a total of 2,889,000 acres.

(iii) The remarkable expansion of the groundnut crop has continued until India is the world's largest producer and its second exporter, despite the enormous internal consumption. The crop has spread from 3,000 acres in 1900 to 9 million acres in 1937-38.

(iv) In respect of sugarcane, about 80 per cent of the total area was brought under improved variety by 1939, and the estimated production per acre expressed as *gur* increased from 1·1 tons in 1927-28 to 1·4 tons in 1937-38.

(v) As for rice in 1937-38, the area under improved varieties had reached 3,759,000 acres compared with 634,000 acres in 1927-28.

(vi) Progress in wheat production can be seen from the fact that the total area under improved varieties just fell short of 7

.1 Quoted by Nanavati and Anjaria : Indian Rural Problem, pp. 89-90.

million acres mark in 1937-38, this being nearly one-fifth of the total area.

(vii) The tobacco industry, which was in its infancy in 1929, now employs about 52,00 flue-curing barns. Some 85 per cent of the total requirements of the Indian cigarette factories were provided by Indian grown leaf in 1938 and an important export trade had been developed.

These are impressive achievements, but in view of the immense possibilities, they only touch the fringe of the problem. As we have seen only one-tenth of the cultured area is under improved varieties. India spends only 1½% per head of population on agriculture. This comes to less than Rs. 70 per 1,000 of population. No wonder the pace of development has been slow. Some writers regard this as inevitable under the circumstances. "Having regard to the small holdings, to the poverty, to the ignorance of the Indian peasant and the variability of the seasons in India, it is not possible to achieve large results quickly.¹ The basic conditions of agriculture thus require a fundamental change. "Indian agriculture" according to Brij Narain, "needs a fundamental reorganization. Our experience during the world crisis suggests that the problem of Indian agriculture is too difficult to be solved by agricultural research and improvement. No real progress is possible without radical changes in the system of landholding and the methods of cultivation. Further, Indian agriculture cannot be modernized unless means are found to divert surplus labour in the villages to manufacturing industries."² We fully subscribe to this view.

1. Gadgil : Industrial Evolution in India, p. 237.

2. Brij Narain : India Before the Crisis, p. 411.

CHAPTER X

FAMINE AND FAMINE RELIEF POLICY

1. Introduction : Until the recent calamity that involved Bengal, it was a common saying that since the beginning of the present century famines in India "are no longer food famines, but are only money famines." This meant that provided money was put into the hands of the people by giving them employment or charity there was no fear of starvation. This was so because food could be transported to areas of scarcity from the four corners, not only of India but also of the world. This result had been achieved by the revolution in transport that occurred during the 2nd half of the 19th century, by the increase in the production of foodgrains made possible by the construction of artificial irrigational works and the policy of famine relief evolved by the Government during the same period. In normal times this would be true even now. The Bengal famine was due to certain special circumstances created by the war, and these circumstances will not be there when the normal conditions have been re-established. In normal times the famine relief policy of the Government should operate effectively enough to prevent loss of human life through starvation. Let us trace the evolution of this policy by a rapid glance over the history of famines in India.

2. History of Famines : Famines have been known to India from times immemorial. During the Hindu period famines must have occurred though records are not available to give us any details about them. On such occasions, according to Chanakya, the state helped the people by remission of taxes, encouragement of emigration, granting relief in money and grain and by construction of artificial irrigational works.

During the Muslim period several famines visited the country, four of them being very severe. The first was in 1343, during the reign of Mohammad Tughlak. The king "ordered provisions for six months to be distributed to all the population of Delhi." During the reign of Akbar there was fearful famine which raged all over the country for three or four years. Alms were widely distributed under the orders of the Emperor to give relief. Under Shah Jehan, one of the greatest famines ever recorded in history visited India, and vigorous measures of relief were adopted.

Another famine followed during the times of Aurangzeb. The Emperor granted relief through the remission of the land revenue ; and in the words of James Mill, "The Treasury of the Emperor was opened without limit, corn was bought in the provinces where the produce was best conveyed to those in which it was most defective and distributed to the people at reduced prices."

During the rule of the East India Company (1760-1857) there were twelve famines and four severe scarcities. The most important famines occurred in 1770, 1784, 1802, 1824 and 1837. During this period the condition of the country was unsettled. Matters like wars, disorder, new judicial and revenue systems, administrative corruption and unemployment caused by demobilization of troops, engaged the attention of the rulers and the people. On the whole the attitude of the Company was determined by commercial considerations. In later years slipshod methods of famine relief were adopted. Among these were regulation of prices, encouragement of emigration and occasionally construction of public works.

In 1858 India passed under the rule of the Crown. Between that date and the end of the century there were several famines, and it was during this period that the policy of famine relief was evolved and perfected. The chief famines of this period were :—

Year.	Areas chiefly affected.
(1) 1860	—North-West India.
(2) 1865	—Orissa.
(3) 1868	—Rajputana.
(4) 1878	—Bihar.
(5) 1876-78	—South India.
(6) 1896-97	—Bombay, Madras, Central Provinces.
(7) 1899-1900	—Bombay, C.P. Berar, Nizam's Dominions and Central India.

3. Evolution of Famine Relief Policy : From the point of view of the famine relief policy the famines of 1865, 1876-78, 1896-97, and 1899-1900 were the most important.

*The Orissa famine of 1865 affected five crores of people. Mortality was about 10 lakhs of lives. Action on the part of the Government was slow in the beginning, but later large quantities of food were supplied. This famine induced the first great and organized effort to combat distress through state agency.*¹ Thirty-five million units were relieved (a unit being one person supported for one day) at a cost of Rs. 95 lakhs.

1. Indian Year.-Book, 1941-42, p. 373.

The Great South Indian Famine of 1876-78, caused a mortality of 52 lakhs, and affected Madras, Mysore, Hyderabad and Bombay and later also extended to parts of Central and United Provinces and the Punjab. It affected 53½ million people. Seven hundred crores of units were relieved throughout British India at a cost of Rs. 8½ crores. "Warned by excessive expenditure in Bihar and actuated by the desire to secure economy the Government relief programme was not entirely successful."¹ The experiences of this famine brought home to the Government the necessity of placing relief on an organized basis. It was after this famine that the first Great Famine Commission was appointed under the chairmanship of Sir Richard Strachey. The recommendations of this commission formed the foundations on which the famine relief policy was later on based. The principles of famine relief, or, famine codes, as they were laid down by the Commission were :—

- (1) that employment should be given on the relief work to the able-bodied at a wage sufficient for support, on the condition of performing a suitable task ;
- (2) that gratuitous relief should be given in their villages or in poor houses to those who are unable to work ;
- (3) the food supply should be left to private agency, except where that was unequal to the demands upon it ;
- (4) the land-owning classes should be assisted by loans and by general suspensions of revenue in proportion to the crop failure.

On these principles provincial codes were drawn up and were tested by the famines of 1896-97 and 1899-1900 and were amended according to experience.

In the meantime in 1878, the Government had instituted a Famine Insurance Grant of Rs. 1½ crores a year to be provided in the annual budget. "The first charge on this grant was famine relief, the second protective works, the third the avoidance of debt."²

The Famine of 1896-97, spread almost all over India, except lower Burma and extreme south of the Peninsula. Sixty-nine and a half millions of people were affected. At the time of the greatest distress 4,000,000 persons were relieved. The total cost of famine relief was Rs. 7½ crores ; revenue was remitted to

1. Ibid.

2. Ibid, p. 375.

the extent of Rs. $1\frac{1}{2}$ crores; and loans were given to the amount of Rs. $1\frac{1}{4}$ crores. The estimated mortality in British India was $7\frac{1}{2}$ lakhs of persons. The success attained in relief was greatest so far. The Famine Commission under Sir James Lyall that reviewed the position after this famine, recommended relief for special classes like weavers and hill tribes; they laid down rules for managing charitable funds, advocated free grant of gratuitous relief. They favoured the extension of decentralized relief works. Before the people could recover from this famine the next famine came in 1899.

The Famine of 1899-1901 was very severe though it was not so widespread. The policy of relief was more generous so that Rs. 15 crores were spent. A special feature of this famine was cattle mortality. The total population affected was $59\frac{1}{2}$ millions. By the end of July $4\frac{1}{2}$ million persons were supported by the State. Although actual deaths from starvation were insignificant, epidemics of malaria and cholera brought up mortality figures to about a million souls. The Indian States also accepted the responsibility of saving life during this famine, and did a great deal to bring their administration of relief to the British Indian standard. In 1900 the Maharaja of Jaipur donated Rs. 15 lakhs which formed the nucleus of the Indian People's Famine Trust.

In 1901 reported another Finance Commission under Sir Anthony MacDonell. The Commission emphasized the importance of "moral strategy" or putting heart into the people. They recommended: assistance by takkavi loans as soon as the danger was scented; early suspension of land revenue, a policy of prudent boldness involving preparations for a large and elastic plan of relief, constant vigilance and full enlistment of non-official help. They also emphasized the necessity of tackling the fodder problem and thus saving the cattle. Further, they recommended starting of co-operative societies and extension of State irrigation in the form of protective works.

The amended famine codes embodying these principles stood the test of subsequent famines in U. P., (1907); Ahmadnagar (1912) and widespread scarcities of 1918 and 1920.

Side by side with the development of the famine relief policy the State has taken measures for protection against famines. Out of the Famine Insurance Grant, already spoken of, protective railways and protective irrigation works have been constructed. The latter have been constructed as recommended by the Irrigation Commission (1903) in the most famine-susceptible districts of India in the Bombay Deccan and in the Central Provinces.

Apart from these the resistance power of the people has increased due to various causes like greater industrial development, improved rural credit, better means of transport and the various activities of the Departments of Agriculture, which have helped to increase the productivity of the land.

4. The Famine Relief Fund : Under the Act of 1919 the Provincial Governments were required to Institute a Famine Relief Fund by annual assignments from their revenues. This Fund was invested with the Central Government which paid interest on it. It was available for expenditure on famine relief under specified conditions. Under the Act of 1935 there is no provision for a separate Famine Relief Fund. Some Provincial Governments, however, have instituted new Famine Relief Funds which are invested in securities of the Central Government. To this end Acts have been passed by Provincial Legislatures in Madras, Bombay, Bengal, United Provinces, Bihar, Central Provinces and Berar, North-West Frontier Provinces, Orissa and Sind. "The Punjab Government have decided to continue the Famine Relief Fund but have considered it unnecessary to have an Act of the Legislature to constitute the new Fund."¹ Assam has no Famine Relief Fund.

In the meantime "the Indian People's Famine Trust" which as we have seen was established in 1900, when the Maharaja of Jaipur gave a sum of Rs. 15 lakhs, increased in volume. Within a few years due to private philanthropy it stood at Rs. 28 lakhs. During 1934, it increased further when the invested balances of the United Provinces Famine Orphans' Fund were transferred to it. At present it stands at Rs. 32.9 lakhs. This fund is administered by a board of management consisting of 13 members appointed from different provinces and States. The income from the investment of this fund is utilized for relief work whenever necessary. In recent years, due to the change in the character of the famines, the fund has been used to relieve distress due not only to failure of rains but also to floods and earthquakes. The Trust, however, only supplements the expenditure in relief undertaken by the Government.

5. The Present Relief System : A few words may now be said about the system of famine relief that exists at present. A complete machinery exists now in the hands of the Government to tackle the famine when it arrives. Steps are taken not only when the famine has actually arrived but preparations are made in anticipation: (a) "In ordinary times Government is kept

1. Indian Year Book, 1943-44, p. 327.

informed of the meteorological conditions and the state of the crops ; programme of suitable relief works are kept up to date, the country is mapped into relief circles, reserves of tools and plants are stocked." (b) "If the rains fail, policy is at once declared, non-officials are enlisted, revenue suspended and loans for agricultural purposes made. Test works are then opened, and if labour in considerable quantities is attracted, they are converted into works on code principles. Poor-houses are opened and gratuitous relief given to the infirm." (c) "On the advent of the rains the people are moved from the large works to small works near their villages, liberal advances are made to agriculturists for the purchase of plough, cattle and seed." (d) "When the principal autumn crop is ripe, the few remaining works are gradually closed and gratuitous relief ceases. (e) "All this time the medical staff is kept in readiness to deal with cholera, which so often accompanies famine and malaria, which generally supervene when the rains break."¹

Up to the recent Bengal famine this system worked quite satisfactorily. "Famine in the old terrible sense of the word," we were told, "ceased to occur." This was due to the possibility of moving food from surplus areas to deficit areas on account of the development in the means of communications and transport and the relief machinery of the Government described above. But this system of relief failed in 1943, especially in the case of Bengal.

6. Causes of the Bengal Famine of 1943-44: Although the food situation could not be regarded normal during the first two years of the War, since food prices were rising, the difficulties in their acute form dated from the entry of Japan into the war in December, 1941. The worst sufferer in the scarcity that followed especially after the end of 1942 was the Province of Bengal. Apart from this province acute food scarcity was experienced in Madras, Bombay, and the States of Travancore and Cochin. In Bengal, according to the Famine Commission, 1½ million² persons died due to the famine and the epidemic that followed in its wake.

According to the Bengal Famine Enquiry Commission³ the causes of the tragedy were as follows :—

1. During 1943, there was a serious shortage in the total supply of rice available for consumption in Bengal as compared with total supply normally available. This was due to—

1. Indian Year Book, 1943-44, pp. 326-27.

2. Famine Enquiry Commission, Report on Bengal, p. 110.

3. Ibid, op cit. p. 77.

(a) a shortage in the yield of winter rice crop (*aman*¹) of 1942 combined with

(b) a shortage in the stock of old rice carried forward from 1942 to 1943.

II. Of the total supply available for consumption, the proportionate requirements of large section of the population who normally buy their supplies from the market, either all the year round or a part of the year, were not distributed to them at a price which they could afford to pay. This was due to :

(a) the incapacity of the trade operating freely in response to supply and demand to effect such a distribution in the conditions prevailing ; and

(b) the absence of that measure of control, by the Bengal Government, over producers, traders and consumers in Bengal, necessary for insuring such a distribution.

III. The supply of rice and wheat which under normal conditions would have been available to Bengal from sources external to the province, was not available during the closing months of 1942 and large part of 1943. This was due to :

(a) the loss of imports of rice from Burma, and

(b) the delay in the establishment of a system of planned movement of supplies from surplus provinces and states to deficit provinces and states.

Thus according to the Commission the famine was due to (i) shortage of supply, (ii) breakdown of normal machinery of distribution (iii) incapacity of the authorities to meet the situation. A few words on each of these causes would be instructive.

7. Shortage of Supply of Rice in 1943 : This was due to the low yield of the *aman* (winter crop) reaped at the close of 1942. There was little carry-over from the previous year. The *aman* crop for 1940 was exceptionally poor. Stocks were heavily drawn upon in 1941. The *aman* crop of 1941 was good but not good enough to replenish stocks materially. In fact M. Afzal Hussain in his Minute contends that there could not have been any stock to carry over during the year in question. "Bengal had no carry-over of rice worth considering in the beginning of 1943."²

Early in 1942 Burma fell and imports from that country (about two million tons a year on the average) ceased. Exports

1. Aman crop is the main crop of Bengal rice.

2. Report, op. cit., p. 187.

from Bengal to areas, which more seriously depended upon Burma rice, increased during the first half of 1942. In 1943 loss of imports from Burma was only partially off-set by imports from other parts of India. "It appears probable," says the Commission, "that total supply during 1943 was not sufficient for the province and that there was an absolute deficiency of three weeks' requirements. This meant that even if all producers sold their entire surplus stocks without retaining the usual reserve for consumption beyond the next harvest, it was unlikely that consumers would have secured their normal requirements in full."¹

8. Failure of Distribution Machinery. In the summer of 1942 situation arose in rice markets of India, including Bengal, when normal trade machinery was beginning to fail to distribute supplies at reasonable prices. This was caused by stoppage of imports from Burma, which transferred demand of areas depending on Burma rice (Ceylon, Travancore, Cochin, Western India) to markets in the main rice-producing areas of India. Other wartime circumstances accentuated the distress thus created. Bengal being near the military operations and base for fighting in Burma, suffered most from material and psychological repercussions. Shortage of supply and absence of control were bound to raise the price of rice to a level at which the poor were unable to obtain their needs.

9. The Responsibility of the Bengal Government. At this time the Bengal Government should have taken measures to control supplies and ensure their proper distribution at controlled prices. The Provincial Government failed to do so. The Commission attributes this failure to political causes. "Between the Government in office and the various political parties, and in the early part of the year (1943) between the Governor and his Ministry, and between his administrative organisation of Government and the public, there was lack of co-operation, which stood in the way of a united and vigorous effort to prevent and relieve famine."²

The main errors committed by the Bengal Government³ according to the Commission were: (i) Failure to set up proper procurement organisation to obtain control over supplies. For this reason price control measures taken in June 1942 did not succeed. (ii) In January and February 1943, the Government tried to obtain control of supplies through unofficial agencies. This was a mistake. Official agency would have been more reliable.

1. Ibid p. 103.

2. Ibid p. 105.

3. Report, p. 104.

(iii) In March 1943 decision was made in favour of "decontrol", which was again a mistake. Control was essential under the circumstances. (iv) In May 1943 the Government of Bengal pressed strongly for "unrestricted free trade"¹ in Eastern Regions in preference to modified free trade." This measure could not save Bengal but "led to severe distress and possibly starvation in the neighbouring areas of the region."² The result of "decontrol" and "unrestricted free trade" was that greater supplies reaching Calcutta were not under the control of Government and hence rationing could not be introduced in Greater Calcutta. Even when the policy was reversed there was considerable delay in introducing rationing. (v) Arrangements for receipt, storage and distribution of food supplies from other parts of India during the autumn of 1943 were thoroughly inadequate. The proportion of the supplies received during the height of the famine was not distributed to the needy in the districts where such food was mostly required. "Better arrangements for despatch and distribution would have saved many lives". (vi) No timely action was taken on the official reports of distress received from the countryside and in many cases relief was limited on financial grounds.

These are extremely serious charges by a body who must speak with authority. It is thus that the Bengal famine was called a "man-made famine."

10. The Responsibility of the Government of India : The Government of India also cannot escape responsibility. They should have established a system of planned movement of supplies from surplus to deficit provinces early enough. Steps in this connection were taken with considerable delay. It appears the Government of India was respecting the autonomy of the provinces during an emergency in which such niceties of behaviour were out of place.

The main errors of the Government of India according to the Commission were (i) They failed to recognize early enough the need for planned movement of wheat and rice from surplus to deficit areas. The Basic plan should have come earlier than it actually did in the closing months of 1942. (ii) The Government of India must share with the Bengal Government in the decision of decontrol made in March 1943. (iii) They should have announced that they could provide month by month full quantity of wheat required by Greater Calcutta and a certain quantity of

1. See footnote on next page for explanation of these terms.

2. Report, p. 106.

rice. (iv) They erred in deciding to introduce "unrestricted free trade" in Eastern Regions in 1943 in preference to modified free trade¹."

11. The Responsibility of the People : According to the Commission the atmosphere of fear and greed in the absence of control was one of the causes of rise in prices. "Enormous profits were made out of the calamity, and in the circumstances profits for some meant death for others."² It has been reckoned that the amount of unusual profits made on the buying and selling of rice during 1943 was 150 crores."³ A large part of the community lived in plenty while others starved, and there was much indifference in the face of suffering, corruption was widespread throughout the province and in many classes of society."⁴ At another place they say, "Men, women and children died as much because they could not pay for the food they needed as because food was not available."⁵

12. Steps taken by Government of India : To meet the food situation in the country the Government of India took certain steps which may be noted.

(a) To deal with the control of food prices, supply and distribution of food-stuffs and to co-ordinate civil and military purchases, a Food Department was set up on 2nd December, 1942. From January, 1943, this Department took over from the Supply Department the task of procuring and purchasing the food requirements of the Army.

(b) A Central Food Advisory Council consisting of officials and non-officials was established in July, 1942, to pursue the task of food production on an all-India basis. The task was also attached to the Food Department. Thus was started the 'Grow-More-Food campaign.'

1. These were the alternatives of policy considered in April 1943 at a meeting between the representatives of Government of India and Government of Bengal. Both proposals involved withdrawal of powers from the Provincial Government, but "modified free trade" involved the retention of power of control and their exercise by the single authority, the Regional Food Commissioner. Inter-provincial exports were to be controlled by a system of licences to private traders issued by the importing government. This gave the Bengal Government some power of control over food supplies. But the Provincial Government preferred to maintain unrestricted free trade, thinking that this would lead to flow of supplies into Bengal and ease the situation. This did not happen.

2. Ibid p. 107.

3. Ibid p. 80.

4. Ibid p. 107.

5. Ibid p. 76.

(c) The Food Department adopted the Basic Plan for one year ending November, 1943, with respect to the major foodgrains. The idea was to facilitate the procurement, transport and distribution of foodgrains from the surplus provinces for the benefit of the deficit provinces. For this purpose regional Commissioners were appointed to maintain liaison between the provincial or State administrations and the centre and to ensure that the food plan was implemented.

The Basic Plan achieved the distribution of 1,240,000 tons of foodgrains in 7½ months. From 18th August, 1943 a revised Basic Plan came into operation. The aim of this plan was to distribute 1,400,000 tons of foodgrains from surplus to deficit areas from August, 1943 to March, 1944.

(d) In addition price control of certain food products and rationing was instituted in certain urban centres which met with varying success.

(e) In July, 1943, a Foodgrain Policy Committee was appointed with the following terms of reference :

“To examine the past policy and present position in India in relation to the supply, distribution and price of foodgrains, in the light of the relevant conditions, including those imposed or liable to be imposed by the war, and to make recommendations, both of policy and for administration, for securing for the duration of the war, maximum supply, equitable distribution and proper control of prices in relation to foodgrains.”

13. Recommendations of the Food Policy Committee :
Among the important recommendations of the Committee were—

(a) The ‘Grow-More-Food campaign’ should be encouraged by the Government by large-scale distribution of improved seed, production and supply of better manures (composts from night-soil, assisting the manufacture of Ammonium Sulphate), promotion of irrigation and drainage schemes, prevention of depletion of India’s milch and draught cattle, importation of tractors and other agricultural implements, securing fuel and lubricating oil required by agriculturists, regulation of crop production, compelling the cultivation of culturable waste, increasing the strength of provincial Departments of Agriculture and promoting schemes of research especially those bearing upon the immediate shortage of food production.

(b) India must cease for the duration of the war to be a net exporter of food. No export of rice should be permitted at all.

(c) The Government of India should (i) press for imports to create a Central Food grains Reserve which should not be less than 500,000 tons. This will help the Government in enforcing price policies, (ii) press the United Nations to arrange for imports for current consumption to make up for the loss in net imports. The amount imported for this purpose was to be 1,000,000 tons of foodgrains a year.

(d) Procurement machinery should be set up in the various areas to procure foodgrains on behalf of the Government. The work should be entrusted to the agencies set up by the provinces and the states and competitive buying should be eliminated as far as possible. Requisitioning from the cultivator should be resorted to with extreme caution. Consumers' goods should be made available to the cultivators in exchange for foodgrains preferably through co-operative societies. Gold and silver may also be provided for the cultivator if necessary.

(e) As regards movement of food, an officer-in-charge of movement is required in the Food Department. Complete control of, and co-ordination over, coastal shipping should be secured, priority of movement of food should be secured by proper organization of country craft, river and canal transports should be organized for the movement of foodgrains and more use should be made of road transport.

(f) Rationing should be introduced forthwith in the larger cities of India, both in the deficit and surplus areas, in the first instance in those with populations of one lakh and over and should be progressively extended. Rationing should extend to all classes and sections of population and should cover all major foodgrains of the area under consideration, anti-hoarding measures should be drastically enforced.

(g) The disparities of food prices in different areas should be narrowed down by reducing prices where they are too high. This should be done by importation of maximum quantities of food products from surplus areas and overseas into deficit areas.

14. Government Action on F. G. P. Committee Report:

The recommendations of the Committee were accepted by the Government and their policy was moulded accordingly. In a conference convened at Delhi in the middle of October 1943, the Food Member announced three lines of policy:—

(i) Banning of all exports of food.

(ii) Taking steps for the import of foodgrains.

(iii) Appointment of a Central Advisory Committee.

At the conclusion of the Conference the Central Government announced its decision in favour of (a) the basic plan of procurement, (b) Statutory price control of major foodgrains and (c) urban rationing.

The policies were implemented by practical steps. Export of foodgrains was prohibited. Arrangements were made for imports, though during the 12 months following the Report of the F. G. P. Committee, only 800,000 tons could be imported instead of 1,500,000 recommended by the Committee. This deficiency was attributed to the difficulties of getting shipping space in view of other pressing needs of the war. To facilitate procurements the Foodgrains Control Order, of May 1942, was rigidly enforced. This order required dealers in foodgrains to take licences and submit monthly returns of their stocks. No one could hold more than 40 maunds of foodgrains at a time. A Price Advisory Panel was established. Statutory prices on All-India basis were fixed for Wheat, Bajra and Jowar. Since it was thought unfair to curb foodgrain prices while leaving other commodities uncontrolled, on 16th October, 1943 by an Ordinance, profiteering in all commodities, except those already under control, was prohibited. Urban rationing was introduced, so that by the end of October 1944, 420 cities with a total population of 42,000,000 had been rationed. Finally the Grow-More-Food campaign was intensified to increase production.

15. The Grow-More-Food Campaign: In April 1942 the Government of India called a "Food Production Conference," which was attended by representatives of provinces and states. The object was to propose measures for the increased production of foodgrains in India, particularly to meet the situation arising out of the loss of imports of rice from Burma.

The measures recommended by the Conference, which were to constitute the Grow-More-Food campaign were as follows:—

- (i) An increase in the area under food and fodder crops by:—
 - (a) bringing new land including fallow land, under cultivation;
 - (b) double cropping; and
 - (c) diverting land from non-food crops to food crops.
- (ii) An increase in the supply of water for irrigation by the improvement and extension of existing irrigation canals, the construction of additional wells, etc.

(iii) The extended use of manures and fertilizers.

(iv) An increase in the supply of improved seeds.

The campaign has been conducted on these lines by the Central, Provincial and State Administrations. The Central Government has helped mainly by making grants and giving loans. The grants have been partly from the Central Revenues and partly from a fund called the Cotton Fund, created in 1942 out of the proceeds of an additional customs duty on the imports of raw cotton. "The object of this fund was to enable Government to take steps for the relief of the situation arising out of the stoppage of cotton exports to Japan by, *inter alia*, financing measures designed to assist the cultivator to change over from short-staple cotton to other crops."¹

The total loans and grants made by the Central Government in two years ending 1944-45 were as follows :—

	Rs Lakhs		
	1943-44	1944-45	Total
Loans :—	164.4	129.1	293.5
Grants } Central revenues	69.8	162.0	231.8
from } Cotton Fund	14.8	23.3	38.1

Expenditure of about equal dimensions was also incurred by the Provincial and the State Governments from their own resources. Grants were generally made on a 50-50 basis.

16. Actual Work and Achievements : We may briefly review the actual work done under this campaign, following the lines laid down by the Food Production Conference.

(i) Increase in area under food and fodder crops. This was to be achieved by bringing new land under cultivation, including fallow land, double cropping, and diverting land from non-food crops to food crops. We have already examined the reasons why culturable waste is not cultivated. Only very expensive measures can help in this connection. Various measures, however, were taken to encourage the bringing of new land under the plough. Such were interest-free loans, rent-free leases for a term of years, rebate on assessment of land revenue, the supply of water for irrigation free or at concessional rates, the supply of seed at cheap rates, and the amendment of tenancy laws etc. Some fallow land was also brought under cultivation mainly due to high prices. Double-cropping land was extended considerably (3.5 million acres more in 1943-44 compared with the average of six years ending 1941-42). As regards diversion from non-food

1. The Famine Enquiry Commission (Final Report), p. 13.

to food crops area under cotton was reduced from 24·2 million acres in 1941-42 to 19·2 million in 1942-43. In its place mainly jowar and bajra were grown. But the reduction of cotton reduced the supply of cattle food represented by about 500,000 tons of cotton seed. Similarly area under jute was reduced by about a million acres between 1942-43 and 1944-45 and rice was grown instead. This also was mainly due to high price of rice.

The table below gives changes brought about in area under the various crops mainly by the Grow-More-Food Campaign.

AREA IN MILLION ACRES.

Crops	3 years' average ending 1938-39	3 years' average ending 1941-42	1942-43	1943-44
Rice (All India	...	...	51·9	53·4
excluding Bengal)	...	...	...	...
Bengal.	...	...	23·3	24·6
Wheat	34·8	34·3	34·4	33·7
Barley	6·3	6·3	6·8	6·7
Jowar	34·8	33·7	35·9	36·0
Bajra	16·9	17·9	22·2	21·1
Maize	6·3	6·3	6·9	6·9
Ragi	5·4	5·4	5·5	5·4
Gram	14·9	13·5	15·7	15·2

Apart from rice, it will be seen that only in the cases of inferior grains like jowar and bajra appreciable increases have taken place in the area under them. These were brought about by reduction in the area under cotton. Increase in the area under rice is partly attributable to its reduction under jute. Exclusive of Bengal (the figures for which are not comparable with previous years) "the area under rice in India in 1943-44 was one million acres greater than any year during the previous ten years." ¹

(ii) The second set of measures aimed at increasing the yield. This was to be done by increase in the supply of water for irrigation, extended use of manures and fertilizers and increase in the supply of improved seed.

The irrigation schemes put forward under the Grow-More-Food Campaign consisted of : (a) reconditioning of old and the construction of new tanks and open wells, (b) the construction of tube-wells fitted with power-driven pumps, (c) the erection of Pumping plant for the raising of water from rivers and minor extensions and improvements to existing canals.

Crores worth of rupees have been sanctioned for such schemes but "the additional area brought under irrigation has not yet been large."¹ The Famine Commission attributes this to several causes: "Departments are short-handed, materials are difficult to obtain, skilled labour is in short supply and above all delay is inevitable in obtaining machinery."² Greatest progress has been shown by the Punjab where 300,000 to 400,000 additional acres have been brought under irrigation since 1942-43.

As regards manures little success has been achieved under the campaign in this connection. Due to pressure on land green manuring has made little progress; bone meal manure is usually of small amounts. There are possibilities of preparing compost from town refuse and night-soil. Arrangements were made to train staff for this purpose. Production was started and by the end of December 1944, 130,000 tons of such manure had been prepared. Sales are being subsidized by the Government. Oil-cakes could be a source of manure but it is also a valuable cattle feed. As regards chemical fertilizers India imported 100,000 tons of them in 1939. The imports stopped during the war. By the beginning of 1944 only 20,000 tons produced in India were available. The Government succeeded in getting imports of 76,000 tons and 34,000 tons during 1944 and early part of 1945. "The restrictions on the supplies of artificial fertilizers has undoubtedly been a great handicap to the Grow-More-Food campaign."³

Improved seed also has been distributed. The principal agencies for multiplication of improved seed are the Provincial Agricultural Departments and registered growers under their supervision. Extension of improved seed takes time. Even then "it has been possible to produce and distribute an additional quantity sufficient to cover an area of about 4 million acres."⁴

Efforts have also been made to increase the supply of better vegetable seeds which before the war were imported from European countries. A seed farm has been established in Baluchistan and arrangements made in Kashmir for the acclimatization of vegetables of European type and for the production of seed on a large scale. Steps were also taken for the preservation of cattle and importation of improved implements. Restrictions were placed on the slaughter of cattle by the military. There was shortage of supply of iron and steel for replacing and making agricultural implements. According to the Government of India

1. Ibid. p. 15.

2. Ibid. p. 16.

3. Ibid. p. 11.

4. Ibid.

a minimum of 25,000 tons of iron and steel per quarter are required for this purpose. It was not possible to secure this amount. As regards more improved implements it was estimated that for 1944, 151 tractors were required. Out of these only 19 tractors were received.

Now as regards the increase in the yield of the various crops brought about by all these efforts the table given below is significant :—

YIELD IN MILLION TONS				
Crops.	3 years' average ending 1938-39.	3 years' average ending 1941-42.	1942-43.	1943-44.
Rice (All India excluding Bengal) ...	...	...	17.9	18.8
Bengal ...	...	...	7.0	10.3
Wheat ...	10.2	10.3	11.0	9.7
Berley ...	2.1	2.1	2.2	2.2
Jowar ...	6.8	6.8	6.7	6.7
Bajra ...	2.6	2.9	4.0	3.7
Maize ...	2.0	2.1	2.4	2.4
Ragi ...	1.7	1.8	1.8	1.8
Gram ...	3.5	3.3	4.1	3.3

Apart from bajra and rice no significant increase in yield is indicated by the above table. 1943-44 rice crop was exceptionally good. There was a record yield. The highest yield recorded for all-India excluding Bengal, during the previous ten years, was 18.4 million tons in 1936-37. Compared with this the yield in 1943-44 was higher by 400,000. But the yield of rice fluctuates over a wide range.

17. Conclusion regarding the Grow-More-Food Campaign :

The Grow-More-Food Campaign mostly concentrated in increasing the production of cereals. Every possible measure was adopted : propaganda, extension of cultivation, double-cropping, diversion of land from non-food crops to cereal crops, increased irrigation, conservation and development of manurial resources, subsidized manure supplies and distribution of improved seeds, legislation concessions, compensations, rewards and financial assistance to the cultivator. The war-time high prices provided an additional stimulous. But the net result of these efforts have not been spectacular, as the Famine Commission puts it. The total production of the main cereals increased only by three million tons if we compare the average for the year 1942-43 and 1943-44 with the average of six years ending 1941-42. Even this

did not mean any substantial improvement in the over-all position during the years 1942-43 and 1943-44 as compared with previous years. The food situation in fact has further deteriorated since then. The lesson of this meagre result is that the ultimate solution of the Indian food problem does not entirely lie in the direction of measures adopted under the Grow-More-Food Campaign.

18 Famine Commission on Agricultural Policy : The Famine Commission was appointed in 1944 with two purposes in view (a) to investigate the causes of the Bengal Famine of 1943 and (b) to suggest future lines of policy with respect to food and agriculture. The first report of the Commission was published early in 1945, and dealt with the Bengal Famine. The second or Final Report came out later in the year. In this report the Commission surveys the agricultural problem of India in all its aspects. This is the most comprehensive survey carried out in this field since the Royal Commission on Agriculture reported in 1928.

Regarding the future food and agricultural policy the main lines suggested by the Commission are given below :—

(i) "The state should recognize its ultimate responsibility to provide enough food for all."¹

(ii) Cereals are the basic food of the people. India should aim at self-sufficiency in this respect. India is normally self-sufficient in other cereals except rice. The most important deficit provinces in rice are : Bombay, Madras, Bengal, U. P. and Bihar and the States of Travancore and Cochin. By 1960 rice requirements of these areas will increase by 15 per cent and annual supply must increase by about eight millions. Some increase can be made by better irrigation facilities and application of fertilizers, but India still will have to depend on imports for a long time. The Commission does not favour change in cereal diet of rice-eaters. They must remain rice-eaters. The ideal should be complete self-sufficiency in cereals. Yield of wheat and millets can also be increased by better manure and application of dry farming respectively.

(iii) The cultivator should be ensured a reasonable return from cereals through a policy of price control. The state must determine from time to time the minimum price of rice and wheat which are fair to the producer, and maximum price fair to the consumer and ensure that prevailing prices will fall within

this range.¹ This will imply control of imports and keeping of adequate reserves to meet an emergency.

(iv) There should be an increased production of certain protective and supplementary foods. Mere increased production of cereals will not improve the diet of the people. The Commission endorses the recommendation of the United Nations' Conference on Food and Agriculture, that the dietary standards or allowances based upon a scientific assessment of the amount and quality of foods, in terms of nutrients which promote health, should be adopted as "the ultimate goal of food and nutrition policy." Among such are vegetables, fruits, milk, fats, fish and eggs.

(v) Agriculture should be recognized. The above production programme will depend upon the labours of millions of cultivators large and small, unless they can benefit from the resources made available by science, progress will be impossible. Accordingly the Commission devotes considerable attention to the question of land tenure, rent, co-operation and agricultural economy in general. We have discussed such questions already in this book.

(vi) Finally the development of industry is emphasized. "In order to increase agricultural production and improve the national diet," write the Commissioners, "simultaneous industrial development to augment the total wealth of the country is essential."

19. Minutes of Dissent: Two minutes of dissent are appended to the Report. One is by Mian Afzal Hussain who argues that the Commission's emphasis on self-sufficiency in cereals, and their taking the rice-eater's diet as unchangeable, is to support tradition rather than science. He believes that "over-emphasis on cereals is misplaced, it gives an exaggerated importance to such a source of food, and such a policy will be a serious obstacle in the path of a satisfactory solution of the food problem of India, in a manner as will improve health, raise physical efficiency, increase capacity for work and lead to better mental growth." "It is abundant health," he continues, "not mere satisfaction of hunger, that should be the aim of a food policy. India is suffering, and in fact has been suffering, for some decades from a very acute famine of "protective" foods; which has brought about physical decline and inefficiency, both in men and cattle, and if not attended to immediately may have serious

1. Ibid, p. 118.

consequences in an emergency."¹ We are in complete agreement with the position taken by M. Afzal Hussain. Eminent authorities like the Royal Commission on Agriculture,² Sir John Russell³ and Dr. Wright have also expressed similar views.

The second Minute of Dissent is by Sir N. B. Nanavati. He does not agree with the Commission in their non-committal attitude towards permanent settlement and is definitely in favour of its abolition not only on economic but also on moral grounds. He also suggests a number of Agrarian reforms to remove the various disabilities and handicaps under which the agriculturist works in India. Among these are : small and fragmentary holdings, lack of incentive due to defective tenure, indebtedness, lack of capital, defective marketing, loss of labour time, lack of crop control and planning. These have been discussed by us at relevant places in this book. Sir Nanavati is in favour of state ownership of land, with occupancy rights to cultivators, consolidation of holdings, more equitable taxation of land, restrictions on transfer of land, etc. "The fundamental problem of agriculture," he concludes, "is to transform this occupation from a mode of living into a business proposition for the benefit of the cultivating classes." For this comprehensive and to some extent revolutionary measures are necessary. "Without such measures it is impossible effectively to solve for this country the most baffling problem of our economy, namely, poverty in the midst of plenty."⁴

1. Report, p. 341 (Minute by M. Afzal Hussain).

2. Report, Agricultural Commission, p. 493

3. Russell, Report, p. 21.

4. Famine Report, p. 375 (Minute by Sir M. B. Nanavati).

CHAPTER XI

LAND REVENUE POLICY

1. Introduction : Land Revenue, as an important source of income of the State, will receive our attention in the chapter on Provincial Finance. Here we are concerned with the land revenue policy of the Government from the point of view of the burden of this charge on agriculture. This burden has been condemned and justified with equal force. The systems of land revenue assessment, the methods of calculating the charge, and the manner of its collection, have all been attacked from time to time in the Assembly, the Press and from the platform. The indebtedness of the peasantry, their chronic poverty, even natural calamities like the famines, have been attributed to this demand on the part of the Government. The reform of the system has been urgently stressed, though there appears to be considerable divergence of opinion as regards the directions in which reform is needed. In this chapter we shall first describe the various land revenue systems prevailing in India, then we shall examine the theoretical basis of the policy of the Government and, finally, we shall evaluate the various reforms that have been suggested to make the system more equitable.

2. Land Revenue Systems : The land revenue systems prevailing in India may be classified from two points of view :

(i) Whether the land revenue is fixed once for all, or whether it is revised periodically. The former is known as the "Permanent Settlement." This system was first introduced in Bengal in 1793, and was later extended to parts of the United Provinces and Madras. The latter system is known as the "Temporary Settlement." Here the period of revision varies from 20 to 40 years. This system prevails in those parts of India which are not subject to the Permanent Settlement. Roughly, about 121 million acres (or 19 per cent of the total cultivated areas in British India) are under the Permanent Settlement, the remaining 533.5 million acres (81 per cent) being under Temporary Settlement. Of this latter 51 per cent is under the Village Community type of tenure.

(ii) The second basis of classification is the land tenure. We have already studied the systems of land tenure that obtain in

India. Here the point is to see on whose shoulders is placed the responsibility of paying the land revenue. Thus:—

(a) Under the "Zamindari" system of tenure it is the Zamindar who is made the owner of the land and hence is responsible for payment to the Government. He in his turn realizes the amount from actual cultivators.

(b) Under the Ryotwari system, every holder is individually responsible for payment of land revenue to the Government, the latter is regarded as the "owner" of land. "The distinguishing feature of this system," in the words of the Taxation Enquiry Committee, "is that the settlement is made with the cultivating proprietor year by year, and that he is at liberty to relinquish part of his holding, or subject to certain conditions, to add to it by taking up waste lands as opportunity arises."¹ But even in Ryotwari tenures middlemen have emerged by the practice of sub-letting and the land revenue, in such cases, is realized not from the actual cultivators but from the middlemen rent-receivers who were the original occupants.

Thus whether the system is Zamindari or Ryotwari, land revenue may be realized, either (i) from those who "own" the land whether they are zamindars, members of joint village communities or ryots, but who do not themselves cultivate it, or (ii) from actual cultivators whether "ryots" as in ryotwari districts or owners as in joint villages of peasant-proprietors.

Those who merely receive rent from their tenant-cultivators "are to a great extent mere parasites who fatten on the product of the cultivators."² This class of non-working landlords—absentee landlords as they have come to be—is the creation of the British rule. This was brought about by the wrong application of British ideas of land ownership to Indian conditions. Though the system was quite convenient for realising land revenue, it led to the exploitation of the actual tillers of the soil by the landlord. This is true of Permanent as well as Temporary Settlements, but especially of the former.

3. Permanent Settlement: A "settlement" may be defined as the official assessment of the land revenue due in British India to the Government from land. It is preceded by a more or less full survey, classification, and valuation of the land and an inquiry into the rights of all persons concerned.³ A settlement, as we have noted above, may be Permanent or Temporary.

1. Report: Indian Taxation Enquiry Committee (1924-25), ¶ 43.

2. V. Anstey, *Economic Development of India*, p. 99.

3. *Ibid.*, p. 98.

The first Settlement was made by the British in Bengal where they introduced the Permanent Settlement in 1793. The officials of the Mughal rulers, who were merely revenue collectors on commission basis, were made the "Zamindars" or the landowners. They were mistaken for landlords in the English sense. The revenue due from the Zamindars was fixed in cash in perpetuity. The rate fixed was 10/11 of the rents realized by the Zamindars at the time, 1/11 being left to the latter as their share. This was quite a heavy burden at the time but later the value of land gradually rose due to increased security and higher prices of produce. This led to increase of rents and hence the incomes of the Zamindars from land rose considerably. In 1900 it was officially estimated that the land revenue paid to Government from permanently settled areas amounted to less than Rs. 4 crores, whilst rentals in the same areas amounted to no less than Rs. 16½ crores.¹

Permanent Settlement was extended to Benares in 1795. There also the Bengal model was followed. The existence of joint-landlord villages was ignored and the Government dealt with one of the chief co-sharers or some other prominent person on the basis of Permanent Settlement. In Madras also the same system was tried. It succeeded in the north of the presidency and certain parts of the south, where individual landlords, descendants of former ruling chiefs, existed. But in the major portion of the presidency there existed Ryotwari villages where no such intermediaries were available. Attempts were made to create substitutes by auction to highest bidders. But the system failed miserably and had to be replaced by the Ryotwari system. But before this system was adopted between one-fifth and one-third of the presidency had already come under the Permanent Settlement.

During the 19th century proposals were made from time to time to further extend the system of Permanent Settlement. But all such proposals were finally rejected in 1883. Since then the question of Permanent Settlement has been regarded as closed. Recent controversy, however, led to the appointment in Bengal of a Land Revenue Commission (1938-40) which recommended the abolition of the system.

4. The Bengal Land Revenue Commission (1938-40): The Bengal Land Revenue Commission was appointed in 1938, under the chairmanship of Sir Francis Floud, to examine the land revenue system of Bengal with special reference to Permanent

1. Govt. Resolution on Land Revenue Policy, 1902, p. 82.

Settlement. The majority of the Commission favoured the abolition of Permanent Settlement on the following grounds :—

(a) It has deprived the Government of share of increase in the value of land which has resulted on account of the increase in population and extension of cultivation.

(b) It has involved the Government in loss of revenue from minerals and fisheries.

(c) It has deprived the Government of intimate knowledge of rural conditions as afforded by the Ryotwari system.

(d) It has imposed an iron framework which stifles initiative and enterprise of all classes.

(e) It has encouraged excessive amount of sub-infeudation, creating a number of intermediate interests between the Zamindar and the actual cultivators, which has in some districts reached fantastic proportions.

The Commission favoured the replacement of this system by a Ryotwari system and added : “ Whatever may have been the justification for the Permanent Settlement in 1793, it is no longer suited to the conditions of the present time. A majority of the Commission have also come to the conclusion that the Zamindari system has developed so many defects that it has ceased to serve any national interest. No half measures will satisfactorily remedy its defects. Provided that a practicable scheme can be devised to acquire the interests of all classes of rent receivers on reasonable terms, the policy should be to aim at bringing the actual cultivators into the position of tenants holding directly under Government.¹

The recommendations of the Commission, we understand, are receiving consideration by the Bengal Government. It is hoped that the reforms recommended by the Commission will materialize as early as practicable. Other permanently settled areas in U. P. and Madras should also follow suit. The case against this system is incontrovertible. No agricultural progress is possible unless the tiller of the soil is saved from exploitation by the ‘parasitic class of Zamindars. This is also true of the absentee landlords even in the temporarily settled areas. Moreover, the principle of “equality of sacrifice” in the apportionment of tax burden also requires this reform.

1. Bengal Land Revenue Commission Report, Vol. I., p. 42.

5. Temporary Settlement: Temporary settlements are not of a uniform character. Here differences arise due to (1) differences in persons from whom the charge is collected; (2) differences in the period of settlement; (3) difference in the methods of calculating the charge, *i.e.*, (a) in arriving at the "net assets", and (b) the proportion of such assets taken by the Government.

(1) As regards the agency by which the charge is paid, as we have already seen, the determining factor is the system of land tenure. From this point of view we arrive at the following classification:—

A.—Zamindari Settlements or settlements of single estates under one landlord.

(i) Temporary Settlement with the Zamindars, as in areas not brought under Permanent Settlement.

(ii) Temporary Settlement, as with Talukdars of Oudh.

B.—Mahalwari Settlements, or settlement of estates of village communities.

(i) Mahalwari Settlement in the United Provinces where there are no talukdars but only village communities.

(ii) Mahalwari Settlement of the Punjab.

(iii) Malguzari Settlement of the Central Provinces.

C.—Ryotwari Settlements—where the settlement is made with individual holders or occupants.

(i) The Madras system.

(ii) The Bombay and Berar system.

(iii) The Assam and Coorg system.

(2) As regards the periods of settlements, in the Central Provinces the period may vary from 20 to 30 years, in Berar from 25-30 years; in Madras it is 30 years and in the United Provinces and the Punjab it is 40 years.

(3) In the calculation of the net assets¹ two systems that of the Punjab and of Bombay may be noted as examples. In the Punjab net assets "are generally estimated on the basis of recorded

¹ "Net-assets" of an estate or group of estates means the estimated average annual surplus produce of such estate or group of estates remaining after deduction of the ordinary expenses of cultivation as ascertained or estimated. Section 3 (8) of Land Revenue Act XVII of 1887 as amended by the Punjab Act III of 1926).

rentals, which are mostly in kind. The terms 'net assets' and rent are not identical but generally a full and reasonable rent paid by a tenant-at-will is regarded as a sufficiently near approximation to the net assets and the safest guide and measure in estimating them. The assessments therefore in practice are based on rents.¹ In the words of the Punjab Land Revenue Committee of 1938, 'net assets' of a tract represent what the land of the tract might ordinarily be expected to fetch in rent less all costs incurred in earning that rent. In other words net assets and normal rent, less these costs, are synonymous, and so defined they may be briefly called landlords' net assets."²

Thus under the Punjab system costs of production are not calculated in detail. The share of the produce going to the tenant roughly is regarded as the cost along with what the landlord may have incurred in earning his share. The landlords' net assets thus estimated are also regarded as the peasant proprietor's net asset. More of this later.

Our second example is represented by the Ryotwari system of Bombay. "The Bombay system was purely empirical for a long time, as is shown by the fact the decision of the Settlement Officer as regards the revenue rates depended not upon the formal working out of results based on theory, but rather upon the subjective impressions of local knowledge and experience. In recent years, however, the rental value as ascertained by records of leases and sales and other similar factors, was being adopted as an important basic factor for fixing the assessment in practice. Rental value, which has now been definitely and legally adopted as the basis for fixing the maximum assessment, is defined by the Bombay Land Revenue Code (Amendment) Act (1939) as 'the consideration (including premia, if any, or any sum of money paid or promised, or a share of crops or service, or any other thing of value rendered periodically or on specified occasions) for which land is or could be leased for a period of one year for its most advantageous use.' The Settlement Officer is directed to ascertain, in the manner prescribed by rules issued under the Act, the rental value of lands for the purpose of settlement."³

As to maximum proportion of the net assets or the rental value charged as revenue, again differences prevail. Up till 1928 in the Punjab it was 50 per cent,⁴ and since then it has been fixed

1. Indian Taxation Enquiry Committee 1924-25, p. 52.

2. Report of the Land Revenue Committee (Punjab), 1938, p. 31.

3. Jathar and Beri: Indian Economics, Vol I (7th Edition), p. 44, p. 443.

4. In practice it rarely reached even 30 per cent of net assets. See Punjab Land Revenue Committee Report, p. 2 (Table).

at 25 per cent of the net assets. In the temporarily settled areas of Bengal the percentage is as high as 70 per cent; in Bombay it is 35 per cent. Generally speaking, the maximum proportion of net assets taken varies from 25 to 50 per cent. These, however, are standard rates, fixed at the time of the settlement, the actual rates charged vary with movements of prices and general condition of the crops. The land revenue, moreover, may be suspended or even remitted in part or whole in exceptionally bad circumstances for the payer.

6. The Incidence of Land Revenue : Is the land revenue burden excessive? The defenders of the policy of the Government have argued that the burden is far from very heavy. Historically the charge is considerably less now than it was either under the Hindu or the Muslim rulers. Thus Manu took from a 12th to a 6th of the gross produce, and in "times of war or other public calamity" as much as fourth.¹ The share was more under the Muslims but finally stood at a third of the gross produce under Akbar. The Sikhs in the Punjab took one-half and sometimes even more. As a rule the demand under the Sikhs varied from two-fifth to one-third of the gross produce. It was in 1860 that the British fixed the maximum demand at one-half of the net assets, though actually it came to less than 30 per cent of the rental. Measured in terms of gross produce the average charged for three years ending 1936-37 was only 6.7 per cent. "If we were to take the last three pre-depression years," wrote the Punjab Revenue Committee (1938), "the proportion would probably be less than 5 per cent. Compare with this the 33 to 40 per cent taken by the Sikhs a hundred years ago."²

The average land revenue per cultivated area in the Punjab came to Re. 1-9-2 per acre for three years ending 1936-39.

The following figures³ give incidence of land revenue per cultivated acre and per head of population in 1939 in some important provinces of India :

INCIDENCE OF LAND REVENUE IN 1939

Province	Per cultivated acre			Per head of population		
	Rs.	A.	P.	Rs.	As.	P.
Bengal :—						
Permanent Settlement	...	1	4	0	0	12
Temporary Settlement	...	3	4	0	0	11
Oudh :—						
Permanent Settlement	...	1	6	0	1	15
Temporary Settlement	...	1	15	0	1	9

1. Taxation Enquiry Committee Report (1924-25) p. 39.

2. Report, p. 11.

3. Taken from Wadia and Merchant : 'Our Economic Problem', p. 246.

Punjab :—	...	...	1	15	0	...
Bombay :—						
Ryotwari	...	...	1	11	0	1 15 0
Madras :—						
Ryotwari	...	...	2	8	0	1 15 0
Zamindari	...	...	1	6	0	0 14

Thus it is argued by the supporters of the present system that the burden of land revenue per acre as well as per head of population is extremely low and as compared with what it used to be in the past, it is insignificant. Further, it is asserted that even if this burden was abolished it would go to a class of rent-receivers and would not benefit the actual cultivator.¹ Moreover, it is suggested that the prosperity of the cultivators has increased under British rule while the tax burden has been reduced. And finally, that the land revenue is not a tax but a rent, and as such it does not enter into the cost of production and does not affect the prosperity of the cultivator.

Whether the land revenue is a rent or a tax is a controversial issue which we shall examine presently. As regards the other arguments given to support the thesis that the land revenue is not a serious burden on the Indian peasantry the following reply may be given :—

(i) Under the Hindu and the Muslim rulers the land revenue was fixed and collected in kind, therefore its burden varied with the capacity of the assessee to pay. At present even though remissions and suspensions are granted the charge being fixed in cash it becomes very oppressive when prices are low. The amount and methods of collection now are much more rigid than they used to be under the Indian rulers.

(ii) The pressure on land has considerably increased during the British period due to increase in population and decay of handicrafts. Even after a high percentage of gross produce was taken away by Indian rulers the total produce per family being larger the residue was enough to maintain them in their customary comforts. Now the land per family is very small and hence their total produce is hardly enough to maintain them for the year. Even a small portion of this small supply may impose painful burden on the family resources.

(iii) Even if we accept the proposition that the present burden is lighter than it used to be several hundred years ago, it does not justify the present burden if it is an unjust burden.

1. Anstey · op. cit., p. 377.

We must not apply the 16th century standards of justice when we are living in the 20th century. A revolution has occurred since the Moghal times in the conceptions of Government and the relations of the rulers and the ruled. This has happened not only in India. We must judge the justice of the land revenue on its merits, according to modern theories of taxation.

(iv) To say that the benefit of abolition will go only to the rent receivers will hardly stand examination. Many land revenue payers are peasant proprietors; they will be directly and immediately benefited from any reduction or abolition of this charge. As regards the big absentee landlords (if they have to continue at all) in their case the burden is too light rather than too heavy. They should pay higher amounts not as land revenue but as tax on agricultural incomes.

(v) As regards the increase in the prosperity of cultivators this is not a definitely established fact. Opinions differ whether the average cultivator today enjoys a more wholesome food, clothing and health than he used to do in centuries gone by. Even if his poverty has decreased (we can hardly talk in terms of prosperity), that is no justification for putting a burden on him for which his economic capacity does not befit him. Have the classes who have really prospered under the British rule paid their quota in similar proportion?

(vi) The real reason why relief is denied to the peasant cultivator is that, even if uneconomic holdings are exempted from land revenue, the effect on Government finances will be so disastrous as to preclude all reforms in this direction. We shall come to this point later.

Now let us examine the theory that since land revenue is not a tax but a rent suggestions for the application of the principles of taxation to it are not justified, nor does its payment affect agricultural prosperity since it does not enter into cost of production.

In this connection we have to examine two propositions: (i) Whether land revenue is a tax on rent. (ii) In practice, even if it is a rent, does the cultivator get reasonable return for his labour and enterprise before he pays the land revenue? In other words, does it come out of the true economic rent of the land or does it encroach upon the fair returns to the cultivator as labourer and entrepreneur.

7. Tax or Rent: Whether the land revenue is a tax or rent is a controversy of long standing but with little practical bearing on matters of policy. Baden Powell has called it a "war of words." Even if we agree that the State in India is the universal landlord, and hence the land revenue is a rent, this does not justify the imposition of this charge without reference to the welfare of the people. Even a landlord, if he is enlightened, may exempt uneconomic holdings from rent. When the landlord is also the State the welfare of the subjects and not any theoretical right to the imposition should be its primary consideration. If the small holder requires relief, he must get it whether the payment he is making as land revenue is theoretically regarded as a tax or a rent.

But as it is, certain exceptions apart, the State in India does not claim the right to the ownership of land. This subject we have already discussed in a previous chapter. We may repeat here, as Baden Powell has pointed out, that with regard to the Zamindari districts of Bengal, North Madras, and Oudh, and the joint village districts of the United Provinces, and the Punjab the British Government had definitely stated that property right in the soil "has been declared vested in the land-holders" and any reservations made, in the latter areas, referred not to State rights but to the "rights of subordinate holders and tenants". In Roytwari districts the State has a "residuary right" with regard to vacated and waste-land, but has no power to eject a cultivator "except as a result of process in default of revenue payment." "Hence," he concludes, "the 'recognized ownership' of Government does not exist at all in a large part of India, and in other parts only in a very qualified manner."¹

But even then we cannot categorically say that land revenue is not a rent but is a tax. This charge contains features of a tax as well as a rent. Since it is a compulsory levy of the State periodically collected it resembles a tax. But since almost² all lands have to pay it and it has no element of progression, and in some provinces it is in addition to a tax on agricultural incomes leviable also in others, one might think it is a rent. "Perhaps it would be nearest to say," remarks Vera Anstey, "that it is a tax on rent, and that as a large proportion of the actual cultivators in India are in a sense 'land-owners,' there is no doubt that the Government is receiving as revenue an income that would otherwise go into their pockets."³

1. Quoted by V. Anstey, op. cit., p. 376.

2. Some lands are revenue-free grants.

3. V. Anstey, op. cit., p. 376.

8. Lines of Land Revenue Reform : As far as the reforming of the present system is concerned, as already said, whether the land revenue is a tax or a rent is a matter of no consequence. Various kinds of suggestions have been made to improve the present system. Usually two objects are kept in view in this connection: (i) Relief to the holders of very small holdings. (ii) More equitable distribution of the burden of taxation as between the larger land revenue payers and payers of other forms of taxes.

The various suggestions for reform may be indicated as under:—

(1) Abolition of the Permanent Settlement. This we have already considered and approved.

(2) Some people would like to bring the present temporarily settled areas also under Permanent Settlement.

(3) Some suggest the abolition of the land revenue as such and substitution in its place an income-tax on incomes derived from agriculture.

(4) Others would like to apply the principles of income-tax to land revenue, i.e., exemption of small holdings and imposition of a graduated rate on larger owners.

(5) Finally, some writers expose the defects of the manner in which net assets are calculated especially in the Punjab and would like to make this estimate more scientific.

9. Temporary vs. Permanent Settlement : During the 19th century, as already noted, proposals were made again and again to induce the Government to introduce Permanent Settlement all over India. In 1900 R. C. Dutt in his "open letters" to Lord Curzon criticized the land revenue policy of the Government attributing the dreadful consequences of the famines at the close of the century to this policy. Dutt favoured a Permanent Settlement to which he attributed the prosperity and resourcefulness of the Bengal peasantry. Along with certain retired European members of the Indian Civil Service he presented a memorial to the Secretary of State. His "open letters" led to the issue in 1902 of the famous memorandum of the Government of India, in which their land revenue policy was outlined and defended. The issue of Permanent Settlement ceases to be a live issue for some time and even now it has very few supporters. But they are not non-existent. In 1924-25 a number of witnesses favoured

this system before the Bombay Land Revenue Assessment Committee. More recently three important members of the Bengal Land Revenue Commission (1938-40) in a minute of Dissent argued in favour of Permanent Settlement though, as we have seen, the majority recommended its abolition.

The Permanent Settlement is supported on the following grounds :

(a) From the financial point of view it has insured a fixed and stable revenue for the State which can be collected without much expense. (But as has already been noted it has deprived the State of share in the growing rentals).¹

(b) It has helped politically in the consolidation of British rule in India by creating a loyal class of Zamindars. (To this doubtful advantage it may be replied that British rule has been consolidated elsewhere too and without permanent Settlement).

(c) It has created leaders in the political and social fields who have helped the ryot by spreading "education, sound ideas and sanitation." (This advantage also seems doubtful especially the political leadership of a loyalist class).

(d) It is further said that the system has created a prosperous peasantry with resourcefulness and enterprise. (But famines have been as common in Bengal as elsewhere. It is difficult to understand how peasantry can develop initiative, enterprise and resourcefulness when the absentee landlord is there to squeeze out any surplus over mere subsistence as soon as it arises. If the revenue was directly settled with the cultivators then perhaps the peasantry would have prospered, with no fears of future enhancements. As it is the Zamindars have prospered at the expense of the cultivators and the public treasury).

The disadvantages of Permanent Settlement we have already noted. Here we may conclude that the introduction of Permanent Settlement can be beneficial to the people only if all intermediaries between the State and the tiller of the soil are abolished so that the advantages of future increment of the rental should be enjoyed by the actual man behind the plough.

10. Relief to the small Holders : One school of thought suggests the entire abolition of the land revenue charge and substitution in its place of an income-tax on agricultural incomes. Of course agricultural income-tax can be introduced for larger owners without abolition of the land revenue. We have

1. The Bengal Land Revenue Commission (1938-40) has estimated this loss at from Rs. 2. to Rs. 8 crores annually during the present generation.

examined this issue in a subsequent chapter under Public Finance. The abolition of land revenue aims primarily at relieving the small holder of the burden of this payment. In this connection, therefore, several questions have to be carefully considered before any decision can be taken. Such are :—

(i) Is it desirable and justifiable on political, economic and ethical grounds that the small holder should be entirely freed from making any direct contributions to the revenues of the State ?

(ii) If he is given this relief, how far will it make a significant improvement in his standard of living or methods of production ?

(iii) What will be the extent of the financial loss to the Government ? Could this loss be made up by alternative sources ? If not, what are likely to be the consequences of this curtailed government expenditure on the welfare of the people—including the exempted small holders ?

(i) The land revenue assessment and collection no doubt necessitates the keeping of records of land, its produce and property rights, etc., and these records are of great value to the administrator and the economist. Politically land revenue payment is linked with the voting right, though some other system of suffrage could be devised. But these are only incidental advantages. The system must be justified on more fundamental grounds. The Punjab Land Revenue Committee drew attention to the ethical and social aspects. The land-owner especially in the Punjab enjoys special privileges¹ and protection given by the State. Hence he should make some contribution to the State treasury by virtue of his being a landholder. One witness² asserted that the small holder would not like being exempted from the land revenue charge which enhances his self-importance,

1. "The land of these Agriculturists cannot be sold in execution of a money decree or mortgaged to a non-agriculturist for more than 20 years. A landowner cannot be evicted by a civil court without the intervention of the revenue authority, and he is entitled to retain enough land for the maintenance of himself and his family. His plough, cattle, implements and seed cannot be attached. If he is sued and his interest charges exceed certain statutory limits, they can be reduced. The burden of proving that consideration has passed is on the money-lender nor can a decree be passed against him for more than twice the principal. When he dies his ancestral land is not liable for the payment of his debts unless charged upon it. Finally under an Act of 1934 Conciliation Boards are being set up all over the province to settle his debts." Report p. 74.

2. Written memorandum by Sir G. de Montmorency, Report, p. 176.

dignity and *izzat*. This appears very doubtful. Small holders would jump at the idea of exemption. As regards the "privileges" the protection given by the State to a class liable to be exploited by the still more privileged classes, cannot be put forward as a justification for imposing a tax on the former, if they have no capacity to bear this burden and if other classes are not taxed to the same degree of burden.

Regarding (ii) Mrs. Anstey holds that "judging from past experience, it appears likely that part of the increased income would be squandered on increased expenditure on ceremonies, and that the rest of it would be swallowed up by an increase of population, rather than in any improvement in the standard of life or methods of cultivation."¹ This again is a very flimsy argument. Does the Government while considering taxes on other classes of population probe into the way the money would be spent if the tax is reduced or abolished? Certain social ceremonies are as important to the poor cultivator as are various kinds of recreations and social expenditures to the better-placed classes. Of course the poorer sections should be instructed as to the manner in which they can get the best advantage from their small incomes. This should be done by extending educational facilities not by taking away a part of their meagre incomes in the form of a tax.

(iii) Finally, we come to the financial consideration. If land revenue is abolished and an income-tax is imposed on agricultural incomes with the usual exemption limit, the revenue of the Government will fall very seriously. Even from the bigger landlords the income-tax charge will bring much less than the land revenue charge. The latter is roughly 25 per cent of their net income from land. The average income-tax rate will be much less. Even giving exemptions to small holders without abolishing the charge on the larger landholders will mean a serious curtailment of revenue. The Punjab Committee estimated that if those who paid less than Rs. 500 (with net assets of Rs. 2,000—same limit as in income-tax) were exempted the total "land revenue will be reduced from Rs. 4½ crores to 30 to 40 lakhs"² Even if incomes up to Rs. 250 were exempted, the Committee estimated the loss at over Rs. 2½ crores. In terms of land revenue if only those who pay Rs. 10 a year or less are exempted the loss to the Government will be to the tune of Rs. 78.6 lakhs. Thus while Rs. 10 a year will make no significant

1. Anstey: op. cit., p. 377.

2. Report, p. 72.

change in the economic position of the small holder it will create a serious gap in the finances of the Government and will curtail useful activities of the Government unless this gap can be made up from some other sources. "In a poor country like India," in the words of the Punjab Committee, "the amount of revenue that can be raised from the better-to-do classes is not very large, and the process commonly known as "soaking the rich," which is fruitful enough in a wealthy country like England has only a very limited scope. If any considerable sum has to be raised, it cannot be easily done without spreading the fiscal net over the whole community and levying a small sum from as many people as possible.¹

We are inclined to agree with this view. Unfortunately, it is impracticable to relieve the small holder from the entire burden of land revenue. We also endorse the recommendation of the Punjab Committee in which they recommended² relief to the owner cultivator by reducing his charge by 25 per cent after assessment at the usual rate.

11. Definition of Net Assets : Another attack on the land revenue policy of the Government especially in the Punjab relates to the methods of arriving at the net assets. We have already seen how net assets in the Punjab are estimated. They are net assets of the landlord. Professor Brij Narain contends that these net assets are not the true net assets when applied to the owner cultivator. In the words of Prof. Brij Narain: "The non-cultivating landlord is able to exploit the tenant because of the constantly growing pressure of population on the soil. Land is scarce relatively to demand, and there are no alternative means of earning a livelihood for the tenant class. Under such conditions it is not surprising that the landlords' share should contain a large element of loot."³

The Land Revenue Committee, to meet this criticism, quoted comparative statistics based upon the data given in the Punjab Farm Accounts as follows :

1. Report, p. 73.

2. Report, p. 64.

3. Land Revenue Reform in the Punjab, issued by the Institute of Agrarian Reform, p. 10.

Net assets per acre based on

Years	(a)		(b)	
	Landlords' net assets i.e., the rent obtainable for the land, less ex- penses directly con- nected with its culti- vation (except land revenue)		Owner-cultivators' net assets, i.e., the gross income from direct cultivation less all cultivation expenses (including wages of manual labour but ex- cluding land revenue)	
	Rs.	Average	Rs.	Average
1927-28	...	42.85	44.70	
1928-29	...	44.79	52.62	46.85
1929-30	...	42.27	43.23	
1930-31	...	21.96	15.39	
1931-32	...	22.23	20.29	23.19
1932-33	...	30.76	32.53	
1933-34	...	25.13	24.56	
1934-35	...	28.23	31.81	
1935-36	...	32.37	38.86	34.27
1936-37	...	31.94	32.15	

Their conclusion was that during this period of 11 years only in three years (i.e., 1930-31, 1931-32 and 1933-34) the landlords' net assets were higher than the owner-cultivators' net assets. On taking averages of three periods of 3 years, 4 years and 3 years respectively it was only during the middle period in which owing to depression the owner-cultivator would have been at an advantage if net assets were calculated according to the method (b).

These figures were forcefully challenged by Prof. Brij Narain, who contended that "these figures are cooked figures, and of no value for scientific purpose."¹ He asserted that true figures relating to the farm in question had been altered and moreover nothing was said about the "assumed wages." It appears the Committee took Rs. 120 per adult labourer per annum as wages in calculating cost of production for the owner cultivator. This was done for depression years as well as pre-depression years. This was unscientific according to Prof. Brij Narain. Taking a higher wage rate in proportion to higher prices in pre-depression years Prof. Brij Narain arrived at the following table² comparing his figures with the figures of the Committee.

1. Agricultural Worker and Punjab Land Revenue Committee by Brij Narain, (issued by the Institute of Agrarian Reform), p. 10.

2. Ibid, p. 17.

ACTUAL AND COOKED FIGURES PER ACRE

Year	Landlords' net assets		Owner cultivator's net assets	
	actual	cooked	actual	cooked
	Rs.	Rs.	Rs.	Rs.
1927-28	37.57	42.85	29.36	44.70
1928-29	39.04	44.79	36.45	52.62
1929-30	36.36	42.27	25.71	43.23

Thus taking the "actual" figures landlords' net assets are higher than owner cultivators' net assets in each of the three years.

Prof. Brij Narain further contended that if adequate wages were allowed on this particular farm the percentage of costs to gross income was as high as 68.4 while the Settlement Officer who assessed the Lyallpur tehsil assumed this percentage to be 56. In fact this Risalewala farm being a Government farm was not typical of the area. In other farms,¹ accounts showed that even allowing wages at Rs. 120 per annum per labourer the percentage of total expenditure to gross income came to 82.03. "If the cost is allowed for at 70 per cent of the value of gross produce," concluded Prof. Brij Narain, "net assets are found to be Rs. 68,35,363 (Lyallpur Tehsil) instead of Rs. 1,000,55,363. The total standard demand is reduced from Rs. 25,13,977 to Rs. 17,08,841 and the demand per acre from Rs. 6-8-2 to Rs. 4-6-9, a reduction of more than Rs. 2 per acre."²

The Punjab Committee, however, was not in favour of changing the definition of net assets. They concluded: "Considering the increase in expenditure, the difficulty of obtaining reliable returns, and the doubt whether even at present prices change would be of advantage to the land revenue payer; considering the fact that nearly sixty per cent of the cultivated area is leased to tenants, we are strongly in favour of maintaining the present system."³

As regards Prof. Brij Narain's criticism the whole issue hinges upon what rates of wages are allowed. "The prices of these two crops" (cotton and wheat) wrote Prof. Brij Narain were 87 per cent higher in pre-crisis years, it follows, that wages must be allowed at the minimum rate of Rs. 225 per annum per adult worker"⁴ (87 per cent higher than Rs. 120 allowed for the depression period).

1. Farm Chak 243 R. B. (see Ibid, p. 20.)

2. Ibid, p. 28.

3. Report, op. cit., p. 39.

4. Agricultural Worker, etc., op. cit., p. 30.

Pror. Brij Narain himself accepts $\frac{1}{3}$ of gross produce as enough to remunerate the cultivator for his labour, "taking four or five years of normal prices."¹ He supposed the gross value of produce of half a square at Rs. 600. And he agreed in his evidence that two² men would be required to cultivate half an acre. Thus Rs. 100 per labourer would be a fair wage. The average gross produce during the three pre-depression years (ending 1928-29) of the Resalewala farm³ (800 acres) was Rs. 77,363 or 960 per acre or 480 for half an acre. On this basis the rate of wages in pre-depression years would have been Rs. 80 per labourer per year. Prof. Brij Narain accepted the figure of Rs. 120 for depression years. This in itself was an over-estimate even for pre-depression years.

Further he allows 87 per cent more upon Rs. 120 (Rs. 225) for pre-depression years as wages per labourer. Even if Rs. 120 was legitimate wage rate it is not scientific to raise the pre-depression level in exactly the same proportion as the height of the pre-depression prices. This would mean that wages had fallen during the depression to exactly the same extent as prices. This assumption is obviously unjustified, because wages proverbially lag behind. It would appear therefore that Rs. 120 per labourer was a fair allowance for pre-depression years on the basis of gross produce, and then of a farm managed by Government, hence presumably giving higher per acre gross produce than an average farm. For depression years Rs. 120 would then be an over-estimate of wage rate.

We are therefore inclined to agree with the conclusion of the Punjab Committee and especially since the subsequent rise in prices has altered the whole situation and has increased the paying capacity of the owner cultivator. We feel that the 25 per cent rebate recommended by the Punjab Committee should meet the inequalities, if any, arising out of the indirect estimate of the owner cultivator's net assets. In periods of depression apart from suspensions and remissions and temporary relief the sliding scale system introduced in the newly settled areas of the Punjab should considerably lighten the land revenue burden on the small holder.

12. The Sliding Scale System : New principles of assessment were formulated in the Punjab at the time of the resettlement of the Lyallpur district in 1935. These are known as the

1. Ibid, p. 30.

2. Ibid, p. 15.

3. Ibid, p. 15.

Sliding Scale System. The object of the new system was "to enable the Government to pitch its demand high enough to take into account the possibility of prices rising to the average level of the last 20 or 30 years, and meanwhile to adjust this demand at each harvest to current prices."¹

According to the old system the standard rates did not change during the period from one settlement to another, of course remissions and relief could be given according to the character of crops. The great fall in prices after 1930 necessitated this new system. The features of this system were described as below by a *communiqué* of the Government :—

(1) The communication prices proposed to be fixed by Government have been worked out in accordance with the revenue law on the average of 20 years.

(2) Average revenue rates will be worked out according to those prices, and will determine the average rate for the assessment circle as a whole.

Within the assessment circle the revenue rates will vary, as at present, in accordance with the class of land and other factors. They will in some cases be higher than the average rate. In other cases they will be lower.

(3) The revenue rate as finally announced for a particular square will represent the maximum which Government can take in any circumstances during the period of 40 years.

(4) Government will not take these maxima rates unless the general level of prices is at least as high as that represented by the prices given in the Schedule attached.²

(5) If in any year the general level is higher than that represented by the Schedule, the revenue payers will be given the full advantage of the excess.

(6) If in any year the general level of prices is lower than that represented by the Schedule, a remission in the revenue rates will be given the following year proportionate to the difference."

Thus while the Government was "bound not to exceed the maximum rates as fixed" they would "give to the revenue payer the full benefit of the fall in prices, however great that may be."

1. Land Revenue Committee Report, op. cit., p. 40.

2. Commutation prices based on 20 years' average before the Settlement.

To calculate the amount of remission to be given three factors are taken into account :—

(a) The percentage of the total matured area under each important crop.

(b) The average yield per acre of those crops.

(c) The commutation price assumed for each of those crops.

“By multiplying these figures together,” continues the communique, “the Government will obtain an index figure. They will then calculate a corresponding index figure for the year previous to that for which remissions are to be given. Unless there are exceptional reasons to the contrary, it will be assumed that the percentage of crops remains constant and that the average yield per acre is also constant.” They will, however, take the average prices current during the marketing season of the preceding two harvests in specified markets of the districts during specified months. “We will suppose that the standard index figure is 1,000 and that the index figure according to the new prices is 600. The remission given then will be 40 per cent. Each year, a new index will be calculated and the amount of remission will depend on the level of prices during the previous year.”¹

The strongest critic of the sliding scale system was Professor Brij Narain. He raised two objections against it :

(i) That the system takes no account of the costs of cultivation.

(ii) That it is based on not real but “theoretical or paper net assets.”

“When prices fall heavily,” writes Prof. Brij Narain, “and costs less heavily it is possible that net assets may wholly vanish. But the sliding scale assumes that the zamindar always enjoys net assets, provided the fall in prices is not 100 per cent.”²

Prof. Brij Narain, therefore, recommends that “remissions should be granted according to the fall in net assets, not merely according to the difference between commutation and actual prices.”³

The Punjab Land Revenue Committee recognized this defect of the system. They agreed that in a period of falling prices any

1. Punjab Land Revenue Committee, Appendix A, pp. 157-159.

2. India Before and Since the Crisis, Vol. II, p. 611.

3. Ibid., p. 617.

remission given in proportion to the fall in an owner cultivator's gross income would not be in proportion to the fall in his net income. "But when prices start rising again," they added, "the reverse process sets in, and in time, it may be supposed, the two tendencies neutralize each other."¹

The recent enormous rise in prices seems to have vindicated this view of the Committee.

The second objection taken by Prof. Brij Narain was that the standard land revenue rates under this system are based on prices of 20 years back which were mere paper prices. "There is little or no hope of a rise of prices equal to the commutation level," wrote Prof. Brij Narain. The structure of world supply and world demand in regard to agricultural products has fundamentally altered. Why should not future assessments be based on current prices, which are more normal than the absurdly high average prices of 1914-1929."² He, therefore, recommended that assessment should be made on "actual as distinct from prospective assets."³

"Referring to Prof. Brij Narain's contention in his evidence that there was no possibility of a period of high prices returning during the next forty years," the Land Revenue Committee added: "This assumes a prescience to which we at least can lay no claim, and ignores the unhappy possibility of war, which might greatly inflate the price of such commodities as wheat and cotton."⁴ And so it has happened.

Thus while the commutation price for wheat assumed in the Lyallpur Tehsil Settlement was Rs. 3-12-0 per maund, wheat in recent years has sold at Rs. 10 or more per maund. This must have more than neutralized the over-assessment of the depression years.

Other defects of the sliding scale system were pointed out by the Land Revenue Committee. While the system was quite popular according to the Committee, it could be improved by removing certain defects. The Committee rejected the idea of varying the land revenue according to yield as well as prices. The idea was attractive but due to practical objection, e.g., difficulties of estimating yield annually in each case—the Committee did not recommend it.

1. Report, op. cit., p. 51.

2. India Before and Since the Crisis, Vol. II, p. 614.

3. Ibid., p. 617.

4. Report, op. cit., p. 66.

The system according to the Committee was open to the objection that it involved taking a scale of commutation prices much above current prices to the confusion of the ordinary revenue payer. The Committee sought to meet this objection by a system of upper and lower limit for the demand, *i.e.*, by having two sets of commutation prices, one based on the whole period since the old settlement and the other on the average prices of three or five years before the new settlement. The first level of prices should be the maximum as now and the second should form the basis of actual charge with upper and lower limits within which no change should be effected. Thus if the upper limit was put at 25 per cent and lower at $12\frac{1}{2}$ per cent "there would be no remission until prices fell $12\frac{1}{2}$ per cent below the lower commutation level, and no enhancement until they rose 25 per cent above it."¹ One advantage of this amendment of the system would be that small holders who gain little by a rise in prices will benefit so long as prices rose only up to 25 per cent.

Another defect of the system is that it bases remission on the prices of the previous year and prices of the year for which the revenue is actually being paid may be much lower. The Committee suggested that in the case of important crops figures of prices of the periods nearest to revenue payment should be taken and then "this average should be increased or reduced as the case may be, by the average difference (calculated on a twenty-year basis) between the periods and the appropriate marketing season."²

The general conclusion of the Committee regarding the Sliding Scale System was that "it is specially suited to tracts like the canal colonies, which have a large surplus produce for sale. Such areas are peculiarly susceptible to any sharp rise or fall in prices, benefitting considerably, it may even be enormously, by a rise, and suffering correspondingly by a fall. But in areas where holdings are very small and farming is consequently of the subsistence type, the gain or loss is much less marked; and if in addition harvests are insecure variations may be more important in yield than in price. . . . It is far from certain therefore whether the system will suit the whole province."³

The Committee recommended that the system being still in an experimental stage, it should be reviewed after ten years. We endorse this opinion of the Committee.

1. Report, *op. cit.*, p. 46.

2. Report, p. 49.

3. *Ibid.*, p. 110.

CHAPTER XII

INDUSTRY

COTTAGE INDUSTRIES

1. Introduction : The problem of Indian industries is indeed a vast problem, and in its discussion we must traverse a wide and varied field. We shall first acquaint ourselves with the present position and the problems of cottage industries. We shall study the causes of their survival, the difficulties that they have to face and the methods of helping them out of these difficulties. Each of the modern large-scale industries with its peculiar problems will claim our attention too. We shall go into the question of finance and management of the large-scale industries and also study some of the factors governing industrial development. Industrial labour is a big topic of study by itself. Our industrial development being very halting and unbalanced, we would like to know how we can accelerate industrial development in Pakistan and remedy the defects of industrial structure that have revealed themselves in recent times. We shall then briefly notice the role that the State can play in this connection.

2. The Role of Small-Scale Industries in Modern Industrial Structure : We have already seen what a leading position India occupied in the industrial world in the past. The old Indian industries were mostly carried on a small scale and belonged to the "cottage" category. We have also seen that on account of some adverse circumstances, the Indian industries which were once in a very flourishing state, began to decay. They lost the proud position they occupied at one time. They were unable to withstand competition from the mass production of big factories.

But it is wrong to think that a large-scale industry can kill a small-scale industry altogether. The rule that the bigger whale swallows the smaller one does not seem to apply here. As Prince Kropotkin remarks, "only a superficial and bookish acquaintance with industry could permit the economists to assert that law (necessary disappearance of small industry) for half a century without attempting to prove it. The petty trades are not killed, and cannot be killed; like 'Proteas' they ever change their aspect."¹ That the large-scale production enjoys certain advan-

1. Quoted by Sahasrabuddhe in a paper read at the Industrial Conference in 1912.

tages cannot be denied. There are several internal and external economies open to them, e.g., advantages in buying and selling, benefits of specialized labour and machinery, saving in cost of advertisement and economy in research. But small-scale production has advantages of its own. Supervision is very close. Master's eye is everywhere. Waste of material and manpower is reduced to the minimum. There is no mishandling and spoiling of machinery. Costly and elaborate establishment is unnecessary. The small-scale producer is in a better position to satisfy the whims and tastes of his customers and adapt himself to changing conditions. He also has his own "economies." The small-scale industry is not, therefore, destined to disappear altogether.

In recent times, small-scale industry has been helped specially by some new favourable factors, e.g., the development of cheap electric power which can be supplied in small units, growing taste of the richer classes for artistic and luxury goods, the growth of the co-operative movement and wide diffusion of technical knowledge. The establishment of large-scale enterprise itself has created new opportunities for the small-scale producer by providing him with a work of subsidiary and supplementary nature. Besides, industrial ventures are generally started first on a small-scale. We thus find successful small industries existing side by side with the large-scale Industry. They are not necessarily antagonistic. They may be complementary rather than competitive. They may have a sphere of their own not necessarily narrow or unprofitable.

Even in countries which are the classic lands of big business, small-scale industry occupies a definite and an important place. In France more than 99 per cent of the industrial establishments employ less than 100 workers each, and of these the great majority employ less than 50.¹ In Germany 12.6 per cent of the total population derived their livelihood from handicraft work. Cutlery in Westphalia and watch-making in the Black Forest, and making of cheap musical instruments in Saxony and Wurttemberg are all carried on a small scale. In the highly industrialized city of Birmingham at least 50 per cent of the industrial establishments are small scale employing less than 50 workers.² In Japan 53 per cent of industrial population still gains its livelihood in small undertakings employing less than five workmen.³ In Japan, "in practically every farmer's cottage,

1. Das—Industrial Planning Why and How ?

2. Radha Kamal Mukerjee—Economic Problems of Modern India, 1941, pp. 20–25.

3. Hubbard—Eastern Industrialisation and its Effects on the West, 1938, p. 114.

there may be seen small handloom in which the womenfolk weave the narrow cotton fabrics from which the Japanese garments are made."¹ About 65 per cent of the total volume of Japanese exports comprises the manufactures of medium and small enterprises.² The toy industry of Japan is a small-scale industry. In Belgium, Holland and Switzerland several types of goods are manufactured on a small scale. In almost every country the small-scale industry is alive and kicking.

3. Causes of the Survival of the Small-scale Industry in India : When large-scale industry has not been able to squeeze the small industry out of existence in the countries in advanced stage of industrialization, it is not difficult to understand the persistence in India of the cottage industries. In spite of competition from home and abroad, the cottage industries in India are far from extinct. The causes that account for the survival of the cottage industries can be briefly stated. *Inertia and stay-at-home habits of the cottage worker have kept him moving in the old groove. This coupled with the lack of alternative openings has made the worker either unwilling or unable to leave his hereditary occupation. Prevalence of the caste system is responsible for the perpetuation of the caste occupation even when it has ceased to be paying. Working in one's own house assisted by the loving hands of the members of one's own family and working at one's own will have got their own attractive side. The atmosphere is very congenial and it gives him a feeling of being a master in a place of business. Even a semblance of independence, if not the substance, is not worth throwing away, especially when there are long and honourable traditions behind a craft. Then agriculture, which is the occupation of about 75 per cent of our people, affords at best only seasonal employment and there is enforced idleness for three or four months in the year among agriculturists. There are several supplementary industries which can be dovetailed with agriculture. They have, therefore, been continued as a "second string in the bow". There is still in India a large number of people who appreciate and are prepared and able to pay for a work of art. Their patronage has arrested the decline of many an old craft. There are certain articles, the demand for which is local, fitful or too limited, and they, therefore, do not lead to machine production. The ability of the cottage worker to introduce an element of variety to suit the tastes of different shades of customers has stood him in good stead and saved him from destruction. Proximity to market enables him to*

1. Allan—Modern Japan and its Problems, 1928, p. 122.

2. Bagchi—Industrial Development of Japan, 1939, p. 97.

study better the wants of his customers and acquire an intimate knowledge as to what would satisfy them best. *The isolation of the village* has not yet been completely broken and many village crafts still thrive in places inaccessible to the machine-made goods. Some artisans have *adapted themselves to the new conditions* and have saved their craft by taking advantage of new materials or new tools. The weaver has taken to the mill-made yarn and the flying shuttle, the dyer to the synthetic dyes, the tailor to the sewing machine, the brass and copper-smith to the sheet metal and blacksmith to the machine-rolled sections. The Indian tastes in recent times seem to have veered round to some extent and the hand-made goods are again in favour. The Indian sentiment now favours and strengthens the "buy-Indian" campaign and the cottage industries have derived some benefit. Mahatma Gandhi lent his powerful support to many tottering crafts. The Central and Provincial Governments, too, in recent years have given liberal grants for fostering the cottage industries. Thus the Pakistanis and the Indians have been one in their solicitude for the cottage worker. These are some of the factors which explain the wonderful vitality manifested by the cottage industries in India and Pakistan.

4. Present position of Cottage Industries : All cottage industries are not in the same position. Their present condition varies with the intensity of machine competition which each had to face. Some crafts have died altogether. Dacca muslin, for instance, will not be heard any longer. There are others in a dead-alive condition, e.g., hand-spinning, and there are still others like handloom weaving which in recent years have shown signs of rejuvenation. India still remains a country of small-scale production from which bulk of the population derive their subsistence. The whole of the retail trade is of course a small-scale business. Agriculture is carried on a small scale. Besides, there are numerous industrial arts and crafts offering employment to millions of people in the country. Dr. Radha Kamal Mukerjee thinks 14 millions is an underestimate,¹ Handloom weaving alone employs 5 million people, i.e., equal to the number employed in all organized industries.² There are innumerable small factories or workshops dotted all over the country, and in Calcutta alone their number is estimated to be more than 10000.³

Prof. Radha Kamal Mukerjee has given a long list of cottage industries which are still being carried on in different parts of

1. Economic Problems of Modern India, 1941, p. 26.

2. Ibid, p. 25.

3. Harold Butler—Problems of Industry in the East, 1938, p. 13.

the country.¹ To mention only a few : Basket-making in several villages of Jaunpur, Allahabad and Benares districts, coir-spinning, wicker work and mat-making in Malabar and Southern and Eastern Bengal, silk-worm rearing in Assam, lac and toy manufacture in Badaun, Meerut, Mirzapur, etc., (U.P.), at Bolpur (Bengal), Sylhet (Assam), Chennapatna (Mysore) and Kondapalle (Madras), carpet-weaving in Amritsar, Mirzapur and Benares, silk-weaving in Murshidabad, Malda, Madura and Bhagalpur, conch-shell bangles and mother-of-pearl buttons in Dacca ; artistic clay modelling in Mirzapur (U.P.) and Nadia (Bengal) ; lungis and sarees at Tinnevely (Madras) ; glass bangles at Fatehpur and Ferozabad (U.P.). Prof. Radha Kamal Mukerjee remarks : "Every district contains one or more villages where cottage production like cloth and silk weaving, woodwork, gold, silver, copper, bell-metal, lacquer, bamboos, cane, pith, rattan and leather work is carried on to a high standard of artistic excellence." Handloom spinning and weaving is carried on all over the country, but there are certain centres which have specialized in the production of certain articles like leather goods, cutlery, embroidery work, etc. Soap-making is also being extensively carried on.

In the Punjab several cottage products have acquired great celebrity, e.g., carpets of Multan and Amritsar, sports goods of Sialkot, durries of Ambala, furniture of Kartarpur and Gujrat, woollen blankets of Panipat and Kulu, hosiery goods of Ludhiana, iron safes and steel trunks of Gujranwala and Sialkot, locks of Rupar, woodwork of Hoshiarpur, tubs and buckets of Jullundur city, silk material of Amritsar and Jullundur and *khes* of Jhung and Multan, agricultural implements at Batala and Jullundur, cutlery and surgical instruments of Sialkot, Wazirabad, Bhera and Lahore, glazed pottery of Multan and Gujrat.

It is not possible to discuss here all the cottage industries mentioned above, although each one of them is being carried on very extensively supporting a large number of people. Of these the textile group occupies a specially important place ; we shall consider this group in a little detail.

5. Cotton Handloom Industry : We have already seen what a position of incredible perfection had India attained in the past in the matter of making cotton cloth. It has been stated that a sample examined by Dr. Taylor in 1846 came to 250 miles to a pound of staple which, according to modern standards, corresponds to 5,245 counts. This is a feat which modern machinery

1. Vide *Economic Problems of Modern India*, 1941 pp. 12-14.

has yet failed to accomplish. But this position has been lost completely.

The advent of the cotton-mill industry which happens to be more vocal and impressive seems to have eclipsed the handloom industry and an impression has gone round that the handloom industry is in a decadent state or that it is unimportant. This impression is undoubtedly wrong.

In 1938, the handlooms contributed nearly one-third of the total cloth produced in the country, the mill production being 4,269 million yards and the handloom production approximately 1,916 million yards. According to the Indian Tariff Board, 1932 (Report, p. 157), the handloom industry supports not less than 10 million people—a number exceeded only by agriculture. The same Tariff Board estimated the number of handlooms in the country to be 2,500,000. One centre in Bihar alone produced khadi worth Rs. 1½ lakhs. The number of registered weavers in the All-India Spinners' Association in 1938 was 286,000. Cloth worth Rs. 50,000,000 is annually produced in the Punjab, Bihar and Orissa only. In Bombay 123,893 persons are engaged in spinning, sizing and weaving and there are 1,000 weaving centres with 80,000 looms. The largest rural centre for weaving is Daburhut (Dacca), with 60,000 weavers working 20,000 looms and has been called the Manchester of India.¹ In an exhibition organized by the Seva Sangh Conference at Malikanda in February, 1940, a piece of fine Dacca muslin was exhibited which measures 11 yards but weighed only 10 tolas. The consumption of yarn by the handlooms and the production of cloth has been steadily increasing. It has increased from 220 million lbs. and 880 million yards respectively in 1900 to 479 million lbs. and 1,916 million yards respectively in 1938; the improvement during the last 15 years has been specially remarkable. The handloom industry is thus neither dead nor decaying nor, by any means, unimportant.

The landlooms turn out specialized types of cloth which are not suitable for mass production, for it is obviously uneconomical to set up machinery for the manufacture of cloths of elaborate designs for which the demand is limited and fluctuating. Further, the hand-made cloth is considered by many to be much better than mill-made cloth, for it is thought to be cool in summer, warm in winter, absorbent of perspiration and one that stands washing so well. Cheapness and simplicity of weavers'

1. Radha Kamal Mukerjee: *Economic Problems of Modern India*, 1941, pp. 4-6.

appliances, conservatism and inertia of the weavers, pleasure of working in one's own home with free and willing assistance of the inmates and proximity to the market are some of the other factors which are responsible for the survival of the handloom industry.

The Indian National Congress and Mahatma Gandhi in particular, through the activities of the All-India Spinners' Association, have assisted in the revival of this industry. The Government, too, had not lagged behind. In 1934 was inaugurated a five-year scheme, later extended till 1942, with an annual contribution by the Central Government of Rs. 5 lakhs towards the expenditure incurred by the Provincial Governments in the development of this industry. The activities of the Provincial Governments, under the centrally financed schemes, gave a great impetus to the industry by the introduction of improved loom and appliances and new and marketable designs, improvement in the preparatory and finishing processes, supply of intelligence regarding rates of materials and markets, assisting the marketing of the cloth by subsidizing private firms, opening depots, etc. In some provinces power-driven warping and sizing machinery was set up. The problems of production, marketing and finance were simultaneously attacked and as the work was done through the agency of co-operative societies, the weavers are supposed to have benefited not only economically but also educationally and morally.

No doubt much useful work has been done, but owing to the proverbial apathy and conservatism of the Indian weaver, progress must needs be very slow. The scattered nature of the industry prevents effective organization and the illiteracy and appalling poverty of the weavers hamper all kinds of progress. We have hardly touched the fringe of the problems so far. All these efforts must be considerably intensified if any appreciable progress is to be made. The organization of the weavers on the factory basis under capitalistic aid and direction might remove some of their difficulties. The sphere of the mills and the handloom should be statutorily defined and the mills may be forbidden to produce cloth below certain counts. Excise duty, with a corresponding increase in the protective duty, may be levied on the mill-made cloth and proceeds utilized to assist the handloom industry. If all possible steps are taken to help the industry and the process of rejuvenation continues, the handloom industry may be assured of a respectable place in our economic life. A Fact-finding Committee was appointed in 1940 as a preliminary to taking further measures for the assistance of the industry.

6. Silk Industry : The silk industry in the past was one of the flourishing industries of India. India-made silk cloth found ready markets abroad. But causes, similar to those affecting the cotton handloom industry, *viz.*, competition from abroad, general vitiation of tastes demanding cheap things, disappearance of the native courts and the preference of the new nobility for foreign articles and the policy of the British Government and that of the East India Company, also adversely affected the Indian silk industry. Appearance of artificial silk was another nail in its coffin.

The position of the Indian silk industry is, therefore, far from enviable. The Indian silk is being looked down upon even in the home market. The reeling is so bad that the home weavers prefer to use silk reeled in China and Japan. The Indian silk is exported in the waste form so that the reeling may be done abroad. Kashmir, Mysore and Bengal are the important centres of the industry, and among the chief cities engaged in silk weaving may be mentioned Murshidabad, Tanjore, Benares, Surat, Amritsar and Madura. The annual Production of Silk has been estimated in several provinces as follows : Assam Rs. 1,70,000, Bengal Rs. 20 lakhs, Bihar and Orissa Rs. 32 lakhs, C.P. Rs. 14 lakhs, Mysore Rs. 38 lakhs, Kashmir Rs. 10 lakhs, Jammu Rs. 2 lakhs, Madras Rs. 5 lakhs and the Punjab Rs. 6,000.

In recent times the decaying silk industry has attracted the attention of the Government and of the patriotic Indians who have shown an increasing tendency to patronize home-made goods. In 1935 Government set up Imperial Sericultural Committee, and on its recommendation grants to the tune of Rs. 93,000 were sanctioned for financing schemes calculated to produce disease-free seeds and eradicate silk-worm diseases. Also an annual grant of Rs. one lakh for five years was given by the Central Government in 1935 for the assistance of the industry. High import duty on silk and the protection granted in 1934 have also been helping the industry. Efforts are being made to develop eri-silk industry in Madras, the Punjab and some native States like Baroda. As compared with the cotton handloom industry, the silk cottage industry should be in a better position to face machine competition, for the silk cloth, being of a very fine quality and of great variety, is not so suitable for mass production. But silk cloth being of the nature of a luxury article, its demand must remain limited at home and it would be too much to expect it to invade foreign markets in competition with Chinese, Japanese and European silk. We are thus constrained to arrive at the conclusion that the Indian silk industry has not the same hopeful future as the cotton handloom industry. On

account of the World War II, imports from China and Japan have ceased and the price of indigenous raw silk has increased by 75 per cent.

7. Wool Manufactures: The most important woollen manufactures are shawls, carpets, blankets, felts, puttoos and pashmina. At one time all these branches of the woollen industry were quite prosperous, but circumstances in modern times were not favourable to the continued prosperity of this industry as was the case with so many other Indian industries.

Shawls of Kashmir were once very famous and commanded fabulous prices. The decay of Indian princedoms led to a serious contraction, almost an extinction of the home demand. But the shawls became quite popular with the Europeans and this arrested the decline of the industry to some extent. European demand, however, was for distinctly cheaper and therefore inferior shawls. This change in the character of demand inevitably led to the deterioration of the quality. A severe famine in Kashmir in the early thirties of the last century was a great blow to the industry. Franco-Prussian War in 1871 led to cessation of the European demand, and manufacture of shawls at Paisley, in England, was responsible for further worsening of the conditions of the industry. Although the cheap shawls will continue to be made and sold, yet it cannot be said that the manufacture of shawls of the old excellent quality has a bright future.

The carpet industry, too, shared the same fate. It thrived under the fostering care of the Mogul Emperors. The industry shared the fate of the Mogul Empire and it came almost to rely on foreign markets in which only cheap carpets could be sold. With the use of aniline dyes and with the introduction of cheap designs under the dictation of foreign markets, all art and quality disappeared from the Indian carpet industry. Soon the grip of the middleman became stronger and stronger till the carpet weaver lost his economic independence and was thrown entirely at the mercy of the dealer. Carpet industry, therefore, is practically dead as a cottage industry and most of the Indian carpets are now made in factories and jails. Amritsar was a very important centre of carpet industry. Other centres of carpet industry are Multan, Bikaner, Mirzapore, Ellore and Agra.

The blanket industry has altogether a hopeful future. Wool used in blankets is not of a fine quality and can be had in all parts of the country from the Indian sheep which are to be found everywhere. This availability of the raw material is coupled with the large home market. The weaving art is still known to

millions of people and there is practically no foreign competition in the line. With a little care and attention it should be possible to introduce the necessary improvements and put the industry on the road to prosperity. The World War II brought the large orders for blankets and gave a fillip to the industry.

8. Hand-made Paper Industry : Another cottage industry which has been attracting attention in recent times is paper-making by hand. Indians have been conversant for centuries with the art of making paper by hand. The oldest paper manuscript found in India dates from the first quarter of the thirteenth century.¹ Kashmir was famous for its paper since Akbar's time and Sialkot in Pakistan made a fine quality of paper called Jehangiri. Sialkot had 83 factories in 1855 employing over 900 men and yielding an income of about Rs. 60,000.² In Ahmedabad too, paper-making was a prosperous trade and in 1848, 800 men and boys were daily employed in paper works.³

Only thirty years ago, in Bengal a large class of Muslims known as Kaghzis was engaged in the industry in the districts of Hooghly, Howrah and Murshidabad.

Even now in several parts of the country like Kashmir, Hyderabad, U.P., C.P., Bombay and Madras and in jails throughout India paper is made by hand. But the methods employed are most primitive. The quality of the paper made, except in Hyderabad and Kashmir, is generally very poor, for the paper lacks uniformity in size, weight, thickness and finish. The paper is inefficiently sized and the cost of production is very high.

Strenuous efforts are now being made to revive this ancient and useful art. With this end in view, the industrial section of the Indian Museum, Calcutta, has collected about twenty samples of hand-made paper, from Kashmir, Manipur (Assam), Ahmedabad and Shan States. A sample from Nepal is said to last 1,000 years or more. The All-India Village Industries Association has started manufacturing paper from straw, waste-paper, jute plant refuse and other materials in Bengal, Bihar, Bombay, Orissa and elsewhere. Production of hand-made paper has taken up by the Benares University. The Industrial Research Laboratory of the Industries Department, Bengal, is

1. Indian Munitions Handbook, 1919, p. 246.

2. Emerson—A Monograph on Paper Making and Papiermache in the Punjab 1908, pp. 5-6.

3. Kirk—A Monograph on Paper Making in Bombay Presidency, 1902, p. 2.

also investigating the possibilities of making paper by hand. At the instance of the U.P. Government, the Forest Research Institute, Dehra Dun, has undertaken experiments to see how this cottage industry can be developed and its methods improved. It may be suggested that the pulp should be supplied by the paper mills. This will facilitate the resuscitation of this ancient industry.

There is a great scope for this cottage industry. The hand-made paper is in good demand in Europe and America. In China and Japan large quantities of paper are made by hand. In England, too, the most expensive writing and drawing papers are made by hand. But if this cottage industry is to occupy its due place in India, it will be necessary to overhaul this old industry, introduce new methods and organize it on co-operative lines to obviate the difficulties relating to finance and marketing. The World War II, by creating scarcity of paper, opened out some field for the hand-made paper which is, therefore, now seen in the market more frequently.

9. The ills of the Cottage Industries and their Remedies :

A study of Indian cottage industries reveals that they are not in a happy position. Some of them are dead, others are languishing and still others are struggling to keep themselves above water.

The difficulties that the small industries experience arise from lack of finance and marketing facilities, high cost of production and little margin of profit, poverty and indebtedness and illiteracy, ignorance and conservatism of the craftsman. A comprehensive scheme attacking the problem on all fronts, economic and social, is needed. Spread of education, general and technical, should fight the conservatism and ignorance of the craftsman. An ambitious campaign for his economic and social uplift is essential. He should be supplied better and more efficient tools on a hire-purchase system and raw material of the requisite quality at reasonable rates and on easy terms. New and attractive designs should be brought to his notice and peripatetic parties should be regularly sent out to guide him and give the necessary demonstration. Industrial exhibitions should be more frequently held so that the products of the cottage industries get the necessary publicity and the gulf between the producer and the consumer is bridged. Emporiums and marketing depots should be set up to relieve the craftsman from the difficult task of marketing so that he may concentrate on production only. The crux of the whole problem is marketing and finance and the salvation of the craftsman seems to lie in co-operation which can

lift him economically, morally and educationally. Besides providing him with the necessary financial assistance and aid in marketing, co-operation will give him lessons in self-reliance and self-government. Through a vigorous system of research, we must raise his technical efficiency to such a pitch that he is always ahead of the machine and not behind it as he is now to his utter ruin and embarrassment. Cottage workers may be organized into guilds. Such guilds are already being set up in Kashmir. The committee appointed by the U. P. Government in 1934 made very useful recommendations for the development of cottage industries. It recommended, *inter alia*, the establishment of a Marketing and Finance Company with Government assistance, with an initial capital of Rs. 5 lakhs. It is suggested that such institutions be set up in all provinces. They can go a long way in meeting the difficulties of the cottage worker in the matter of finance and marketing.

A very necessary step seems to be the integration of the cottage industries with the modern large-scale industries. At the present time the cottage industry stands in isolation always threatened with competition from home and abroad. A co-ordination between the different links of the industrial chain is badly needed. The raw materials can be worked in rural areas in small and medium-sized units and then brought in a semi-finished state in the big urban industrial centres. This is possible in case of jute and cotton industries and in the case of so many others. Development of hydro-electric power should make it possible to establish in the countryside several industries closely connected with and based on agriculture, e.g., flour-milling, sugar-refining, fruit preservation, oil crushing, making of soap, paints and varnishes and lubricants, tobacco manufacture, leather industry, scientific treatment of dairy products, etc. By establishing a network of small and medium-sized industrial units in the heart of agricultural areas, we must industrialize the rural areas. In America Henry Ford has established plants in rural areas for the manufacture of parts of cars. In Germany too, efforts were being made before the war to create small industrial towns throughout the countryside.¹ For the proper integration of the cottage industries with the large industries tariffs will have to be adjusted by taking into consideration the fair selling price not only of the modern mill industry but also the cottage industry. A countervailing excise duty will be necessary to eliminate competition between the home mills and the cottage industries. Such a discriminative excise duty was imposed on Khandsari sugar and the factory

1. Guilleband—The Economic Recovery of Germany, 1939, p. 230.

made refined sugar. This is a step in the right direction. This scheme of excise duty should be extended further to embrace all the main industries and their cottage prototypes.

Special efforts were made by Governments in Europe to encourage small industries. The Government of Austria spent large sums on the development of small handicrafts. Watch-making industry of Saxony and pencil industry of Bavaria were fostered by State. Holland developed the industry of hand-painting the cloth. The Government of Rumania built up a successful handloom industry of 12,000 looms. The Government of Hungary supplied the craftsmen between 1899 and 1909 machinery valued at 3,762,567 crowns. Similar efforts were made in Germany and Italy. The Japanese Government has been always paying a special attention to the small industries.¹ In India, too, since 1935 the Central and the Provincial Governments have been spending large amounts of money for the revival and development of cottage industries. But such efforts are not commensurate with the requirements of the cottage industries scattered throughout this sub-continent.

In view of the large number of people depending on our cottage industries and the social and economic advantages expected from the development of such industries and artistic value of their products, a special effort seems to be called for. Even if there is a tenfold development of the large-scale industries, they can absorb at best only a small fraction of our people. To find employment for our huge man-power and to establish a proper balance between agriculture and industry, greater reliance must, therefore, be had on the development of small industries in our villages. It will also offset the precarious nature of our agriculture. Further, conditions for the development of small industries are especially favourable in India. Large factories require large capital which we lack; large factories use labour-saving devices but we have a large population waiting for employment. Small and scattered holdings in India do not provide a whole-time employment to the rural population. The scope for the development of cottage industries in India is particularly wide. It is hoped that in the post-war India, cottage industries will be given their due place in the scheme of industrialization.

During World War II the small industries also received Government attention. Official inquiries were made in all Provinces and States to see what contribution these industries could make to the war effort. Lists of articles suitable for manufacture in cottage industries were prepared and 25 per cent of the war requirements were assigned to them and orders amounting to Rs. 10 crores were placed with them in 1942-43.

1. See paper read at the Industrial Conference held in 1912 by Dr. R. K. Mukerjee.

CHAPTER XIII

LARGE-SCALE ORGANIZED INDUSTRIES

Cotton Mill Industry

1. History : Although the first cotton mill in India was set up in 1818 in Calcutta, yet the real foundation of the industry was laid in Bombay when the mill set up by Bombay Spinning and Weaving Company began working in 1854. But in the sixties the American Civil War causing high cotton prices created trouble for the new industry. Confidence, however, returned in the seventies. More mills were started especially in the up-country centres like Ahmedabad, Sholapur and Nagpur. Several improvements were made in machinery, and cloth of greater variety began to be manufactured. But spinning still occupied a more important place. The industry again had to face difficulties during the decade 1895-1905, on account of plague, famine, imposition of cotton excise duty, a speculative boom in America in 1896 raising the price of cotton to an extraordinary pitch, and disturbances in China which was India's chief market. Again there was a great depression in 1907. During this period the weaving section of the industry made more rapid progress. In the period immediately preceding the World War I, the Indian cotton industry was doing well but the war gave it a special impetus due to shrinkage in imports and increase in demand for military purposes. The expansion of the industry was, however, hampered owing to the difficulty of importing machinery and mill stores. But the prosperity of the industry was not destined to last.

The boom engendered during the war ended in an unprecedented depression for the Indian cotton industry and the condition became acute in 1925. The Chinese had by this time developed their own cotton industry and the Indian industry lost its China market. In the meantime, Japan had stolen a march on us and with her cheap and efficient labour, favourable climate, superior organization—proved a formidable rival. There was also a cut-throat competition among the Indian mills themselves. Bombay, the chief centre of the industry, had her own difficulties in higher wages, higher local taxation and higher cost of fuel and water-power as well as distance from the upcountry

markets and cotton growing areas. Other factors which were responsible in deepening the depression were the defective organization for the purchase of cotton and for the marketing of cloth, lack of system of short-time working, impossibility of collective action, over-capitalization, lack of suitable facilities for finance, defective machinery, lack of labour-saving devices, etc.

Measures of relief for the industry seemed to be urgently called for. The cotton excise duty was abolished in 1926 and a Tariff Board was also appointed which, reporting in 1927, recommended some measures of assistance but the recommendations were only partially accepted by the Government. The condition of the industry continued to worsen. Mr. G. S. Hardy, Collector of Customs, Calcutta, was asked in 1929 to conduct an inquiry which led to the grant of protection to the industry in 1930 which, however, involved preference for the British piecegoods. The industry received further assistance with the rising of import duty in 1931 and with the levying of surcharge of 25 per cent. by the supplementary Finance Act, 1931.

The emergency inquiry by the Tariff Board of 1932 increased the measure of protection. Before effect was given to the recommendations of the Board two pacts were negotiated, (1) The Mody-Lees Pact, 1933, guaranteeing protection to Indian cloth and preference to the British piecegoods; and (2) Indo-Japanese Pact, 1934 based on a quota system linking the import of Japanese cloth and export to Japan of Indian cotton. Subject to these two pacts, the Act passed in 1934 gave effect to the recommendations of the Tariff Board and 50 per cent. *ad valorem* duty was imposed on non-British piecegoods. The tariff was further revised according to the Indo-British Trade Agreement of 1939 which also introduced a quota system, linking the import of British cloth (minimum 350 million yards and maximum 500 million yards) and the export of Indian cotton to England. A sliding scale system of Import duties was provided to regulate the import quota and a system of penalties and rewards was introduced with respect to the export of cotton, penalty if the export was less than the quota, reward if it was more. All these arrangements were severely criticized by the business community in India as making serious breaches in the system of protection.

The Indian cotton industry had thus a chequered history and had to pass through various vicissitudes, but it has continued to grow so that now it can supply almost all requirements for cloth. In 1899-1900, the share of the Indian mills and of import in the Indian market was 12 per cent. and 61 per cent. respectively. But in 1930 the corresponding figures were 63.6 per cent. and 8

per cent. respectively. So the tables have been completely turned. The industry occupies a position of unique importance in the country. Nearly 100 crores of rupees worth capital is invested in the industry and it provides employment for nearly half a million workers and their families; and if we take into account the number of people engaged in cultivation and distribution of cotton crop and dealers in cloth, it will probably be an under-estimate to say that 15 million persons directly or indirectly depend upon this industry. It consumes more than 50 per cent. of the total Indian cotton crop production in a year. It occupies a respectable position in the world cotton industry inasmuch as it stands second in the world so far as the consumption of cotton is concerned and fifth in the matter of looms and spindles installed. It produces 14 per cent. of the estimated world production of cloth and 13 per cent. of the estimated world production of yarn.

The following figures illustrate the growth of the industry :—

Year	No of Mills	No of Spindles	No. of Looms	Average No of daily workers employed	Production of cloth million yds.
1876	47	1,100,112	9,139		678 (1904-5)
1900	193	4,945,783	40,124	1,61,189	1,164 (1913-14)
1913	271	6,778,895	104,179	2,53,786	1,970 (1924-25)
1925	337	8,510,633	154,292	3,67,877	1,790 (1924-25)
1940	388	10,005,785	200,076	4,30,165	4,269 (1940-41)
1943	401	10,130,568	200,890	5,02,650	4,109

2. Some Recent Tendencies in the Indian Cotton Mill Industry : Vigorous efforts have recently been made to improve the quality of Indian cotton by seed selection, hybridisation and the importation of exotics so that the quantity of long-staple cotton grown in India now very nearly approaches to what our mills require for spinning all their fine yarn. In their efforts to go 'fine,' Indian mills have also been using larger quantities of foreign cotton but now that they have to pay a duty of one anna per pound on all such cotton, this may hamper their efforts to produce finer fabrics. The mills have also been using 'mixings' in recent years to a much greater extent.

The Tariff Board in 1927 adversely commented upon the quality of the Indian mill production. Since then the mills have been making serious efforts to improve their output. By the increasing use of imported cotton, by the steady improvement of the quality of Indian cotton and through the adoption of such mechanical aids as better opening, cleaning, high draft system of spinning and use of combing machines, the progress in spinning finer counts has been accelerated. During one decade 1928-1929—

1938-39, whereas the production of yarn of counts below 20s increased by 92. per cent., that above 30s registered an increase of 494 per cent.

Similarly there has been a marked improvement in the quality of cloth produced by Indian mills. In 1927-28, the proportion of piecegoods woven from finer counts *i.e.*, above 30s, was nearly 10 per cent., whereas in 1938-39, it was 37 per cent. Also production of piecegoods shows a wider range and astonishingly greater degree of diversification. Considerable progress has also been made in the production of printers which in course of five years 1932-33 to 1937-38, increased by 87 per cent. Appreciable improvement has been made in design and style so that the India-made cloth is now almost as attractive as the imported one. Arno Pearse remarks, "The range of goods made by Indian mills does not stand behind that of the largest mills in Europe." In an article contributed to the Jubilee Number of the *Capital* in 1938, Sir H. P. Mody quotes from the report of a delegation of experts under Rt. Hon'ble Tom Sha as follows:—

"The class of goods too were a revelation . . . Many of the manufacturing processes were fully equal to European standard and in some cases the variety of yarn spun and cloth woven, dyed and finished, showed range and variety probably not equalled by any individual European concern."

Another noticeable feature of the industry is the 'away-from-Bombay' tendency. The advantages of Bombay lie in the humidity of its climate, trained labour, availability of supervisory and technical staff, more economical purchases of imported cotton, machinery and mill stores, lower office expenses and better banking facilities. But the centres like Ahmedabad, Sholapur, Nagpur and Cawnpore enjoy greater proximity to raw material, nearness to market, closer acquaintance with the needs of the locality, cheap labour and cheap land. The Indian States have still greater attraction on account of lower taxation, lax labour laws and other facilities offered by the Darbars as free land, loans at low rates etc. The balance of advantage seems to be against Bombay, and we find increasing decentralization of the industry. The share of Bombay in the number of mills has gone down from 32.9% in 1919 to 18.6% in 1937, although Bombay is still the most important single centre of the industry. Saturation point seems also to have reached in Ahmedabad. We may, therefore, expect the migration of the industry more in other parts of the country, like Northern India, Bengal and particularly

the Indian States. Still another tendency is for the weaving side of the industry to develop more rapidly than the spinning side. Between 1905 and 1936, whereas the spindles increased by 91%, the looms increased 299%. Efforts have also been made in the direction of modernization of plants and improvement of working conditions in the mills by the installation of humidification plants.

3 Some Suggestions for Improvement :—The Indian cotton industry has undoubtedly shown great progress and has made India almost self-sufficient. But it cannot be said that the position of the industry is perfectly stable. Foreign competition in the post-war period is bound to affect the industry adversely. It is very necessary that during the period of high profits steps should be taken to build up reserves and that the profits be not frittered away in high dividends, so that the industry can face the post-war effects with confidence.

If the industry is successfully to withstand foreign competition and acquire a foothold in foreign markets, it will be necessary to apply, like the Japanese, the methods of high commerce to the purchase of cotton and to the selling of piece-goods. An effective common sales agency is essential. At present when every mill makes its own arrangements, it involves a cut-throat competition at home and a feeble front abroad.

It is necessary to continue making efforts towards improvement of the quality of the cloth and further diversification of the output. There are several specialities which have hardly been yet touched, e.g., mechanical and industrial textiles including material for wire insulation, special cotton tapes for spindle driving, material to cover rollers for sizing yarn, woven felts used in paper industry, etc. Other possible lines are tracing cloth for drawing officers, horse-hair cloth for lining suits, special woven tapes for curtains and woven fabrics of all kinds from hose pipes to pillow cases.

The equipment of cotton mills needs considerable improvement. Mr. Harold Hill, Technical Expert, Howard and Bullough Ltd., who visited Indian mills a few years ago, was of the opinion that a large amount of plant in Indian mills was in urgent need of replacement. According to the standards revealed in the Tariff Board inquiry in 1927, quite a large number of the plants must be pronounced as uneconomical. In Japan a ten-year-old mill is considered out-of-date, and they have estimated that a new plant works 35 per cent. more economically. But most of Indian plants are more than ten years old and need replacement.

Ignorant and otherwise busy directorate, incompetent and selfish managing agents in the case of several mills and defective financial arrangements which have been described as 'fair-weather' friends, are some of the other weak spots which must be eliminated.

Above all the organization of the industry is very weak. It is organized on a strictly individualistic basis, each mill working its own arrangements regarding purchase of cotton, machinery and mill stores, selling its output and effecting insurance as best as it can with the limited resources at its disposal. The Millowners' Associations are mainly concerned with the safeguarding of their interests as against labour and representing the view of the industry to the Government. It has no coercive action over individual mills. The Cotton Spinners' Association of Japan has an absolute control over the constituent members and much of the progress of the industry in Japan is due to the driving force and direction of its organization. In England, too, the industry has been replanned on a collective basis. The plan prepared by the Joint Committee of Cotton Trade Organizations in 1938 was accepted and in July 1939 the Spindles Board was armed with fresh powers so that the work of purchasing and dismantling redundant and obsolete machinery may proceed apace. If our industry also is to be rationalized, its organization must be drastically overhauled. Continuously functioning, sub-committees on matters like export trade, mill finance, labour, purchase of cotton and mill machinery and stores may in the meantime be set up. Constant touch must be maintained with our Trade Commissioners abroad. It is the weakness of the organization which allowed a rationalization scheme proposed in 1930 to be shelved. Given a favourable fiscal policy, a progressive attitude on the part of the manufacturers and patriotic preference of the Indian public for their home-made articles, the Indian cotton industry may be assured of a prosperous future.

World War II and the Indian Cotton Industry.—For more than a decade preceding the World War II, the Indian cotton industry passed through a period of almost unrelieved gloom, and the declaration of war brought a ray of hope. The feeling of buoyancy was, however, short-lived. Although heavy stocks were substantially cleared at remunerative prices, yet the first four months were a period of excitement and the purchases were merely for speculative purposes and not for consumptions. Prices soon fell and there was a setback. The first year of the war did not, therefore, spell any prosperity for the industry. But with the commencement of the second year, signs of pronounced

récovery were visible. Home demand increased, war orders flowed in and inquiries from abroad had a heartening effect. The Eastern Group Conference held in October-November, 1940, with a view to making the Eastern Groups of the Empire countries self-supporting, looked forward to the Indian industry to meet their requirements, and up to June, 1942, orders of the value of Rs. 120 crores had been executed. The exports of cotton piece-goods in 1942-43 were four and a half-times as much as in 1938-39, the pre-war year. There was a keen overseas demand from Ceylon, Australia, Africa and the Middle East. There was a welcome respite from foreign competition. Japanese imports disappeared altogether and import from U. K. also went down considerably. The industry seems to have its hands full at present, and it has made some new innovations, e.g., the cotton-jute fabric and fivefold yarn. The civilian population, however, has been feeling the pinch of high prices of cloth. The Price Control Orders and cloth rationing are calculated to bring some relief to the consuming public. Since 1942-43 the public has experienced much more acute shortage of cloth. There has been a cloth famine in Bengal. In 1943-44 the cloth available for civilian consumption was estimated to be 94% of the peace-time supply. There was an abnormal rise in the prices of cloth throughout India.

The war also was not an unmixed blessing for the industry. There were labour troubles, and wages increased and dearness allowances had to be sanctioned. It was not easy to import machinery, cotton and mill stores so that the industry could not expand in response to increased demand. Taxation increased. All this meant a higher cost of production. The conditions during World War II were different from what they were during the World War I. India this time was practically self-sufficient in the matter of cloth requirements. There was, therefore, a limit to the expansion of the home market and cessation of imports could not mean much. The only hope lay in the expansion of overseas market but here shipping difficulties stood in the way. The industry, therefore, came exclusively to rely on war orders. On the whole, it may be said that the war ushered in a period of comparative prosperity for the Indian cotton industry. It is estimated to employ now three lakhs more men and women than before the war.

5. Comparison of Cotton and Jute Industries : The Pakistan jute industry presents, in some respects, a marked contrast to the cotton-mill industry. *In the first place, the jute industry enjoys a monopolistic position free from fear of rivals in the international*

markets. The cotton industry, on the other hand, is much vulnerable and fear of foreign competition always haunts it. Secondly, the jute industry is essentially an export industry, depending almost exclusively on foreign markets, whereas the export trade of the cotton industry is insignificant as compared with the home market. Thirdly, the jute industry is highly centralized, being confined to one corner of Pakistan, whereas the cotton industry is more widely spread and is being increasingly decentralized. Fourthly, the management and ownership of the jute industry is preponderantly in Muslim hands, while the cotton industry has been financed largely by Indian capital and is managed by Hindus. Fifthly, the size of an average jute mill is larger than that of an average cotton mill. Lastly, the jute industry is more efficiently organized and has shown greater capacity for a concerted action to meet any situation of stress and strain.

6. History and Present Position of Jute Industry : The jute industry, too, was at first a handloom industry, and, in the words of Dr. Forbes Royle, "forms the grand domestic manufacture It pervades all classes and penetrates every household." Up to 1857, all the gunny bags exported from India were made entirely by hand and exports in 1850-51 were valued at Rs. 21,52,782.¹

The jute industry owes its inception to one George Acland who set up the first jute mill at Rishra near Serampore. The first power-loom was installed by the Borneo Jute Co. in 1859. At first the progress was very slow, and the first mill had to be wound up. But within a few years, the jute mills came to have a very prosperous career and, in the words of Wallace, "they simply coined money" between 1868 and 1873. In the seventies, expansion was too rapid, a severe struggle ensued and several mills came to grief. By the eighties it had grown to respectable dimensions and had, in 1882, 5,150 looms. Till 1895, the progress was very slow, but it has been very rapid since then. Progress in hessian was much more rapid than in sacking, the looms for the former increased during 1877-1915 by 2,400%, whereas the increase in the latter was only 43%.² The World War I gave a great stimulus to the industry. But in the post-war years, it was not in a happy position, especially since the thirties on account of worldwide economic depression. The productive capacity of the industry had exceeded the demand. Voluntary agreements were entered into to curtail production by short-time working and by sealing of looms. Restrictions on further extensions

1. Dr. Forbes Royle—*The Fibrous Plants of India*, 1855, p. 251.

2. Jather and Beri—*Indian Economics*, Vol. II, p. 42.

were also imposed. From 1932 to 1934 the jute mills worked 40 hours a week. Restrictions were then gradually removed and working hours increased so that in 1937 all the mills regained full liberty of action in the matter. But it was realized that optimism was misplaced. The condition of the industry became critical and Government had to intervene and issue an ordinance for regulating production. Restriction of crop was also contemplated. In 1939, therefore, a short-time agreement of 45 hours a week with the sealing of 20% hessian looms and 7½% sacking looms was entered into. Then came the World War II and, in view of the war orders and heavy oversea demand, all restrictions were withdrawn and the mills worked full 60 hours a week. Again the demand seemed to have been over-estimated and there were shipping difficulties. Therefore short working was again resorted to from April 1940 and later the mills closed for a week in a month. Only towards the close of 1941, 60 hours working in a week was restored.

On the whole jute industry in Bengal has made uninterrupted progress. Its original outturn was only 8 tons a day, and today the production is 5,500 tons a day. Exports of raw jute and jute manufactures in 1940-41 were 1,169,000 tons valued at Rs. 5,328 lakhs. The consumption of jute manufactures in India is only 25 to 30 per cent. of the total production. The progress of the industry can be seen from the following figures :—

Average	No. of Mills	Authorized capital Rs. Lakhs	Persons employed 000's	Looms 000's	Spindles 000's
1879-80 to 1883-84	21	270.7	38.8	5.5	88
1914-15 to 1918-19	73	1,403.6	259.3	39.7	821.2
1938-39	107	2,682.6	...	66.7	1,350.4

Feverish attempts are being made in several countries to discover suitable substitutes for jute. In America bags made of five-fold paper have been used instead of jute bags. A plant called malva grown in Cuba has been found to be quite promising. Italy has discovered a substitute called Jutital. A Japanese chemist has perfected a new type of heavy paper for the manufacture of bags. Indo-China wants to use bags made from coconut fibres. Caroa—a Brazilian substitute—is believed to be much better and stronger than Indian jute. Attempts have been made to cultivate jute in Ethiopia, Mexico and Turkey and jute substitutes in Java, America, Indo-China and Belgian Congo. But these efforts are still in the experimental stage.

The jute industry has derived much benefit from the Indian Jute Mills Association which was formed in 1884 to watch over and further the interests of the industry. But it was only in

1939 that it became all-inclusive. In 1936 the Indian Central Jute Committee was set up and its programme includes marketing and transport inquiry, agricultural and technological research, seed supply, improvement of jute forecasts and collection and dissemination of information of interest to the trade. Agricultural Research Laboratories and Technological Research Laboratories have already been set up where spinning trials on the various types of the fibre are carried on. The Indian Central Jute Committee also tried to find new uses for jute, e.g., a cotton-jute fabric has already been manufactured. But no attempt has been made so far to start subsidiary industries and even ordinary stores had to be imported. War had only helped to conceal temporarily the weakness of the industry. Only a radical reorganization can set it on a stable footing. Rationalization by compulsion seems to be the only permanent solution. Compulsory cartelization is likely to prevent the recurrence of old troubles.

7. The World War II and Jute Industry : The jute industry has been passing through ups and downs during the last four years. In 1938 there was an acute depression, and balance-sheets of 59 companies showed a total loss of Rs. 84 lakhs. Early in 1939, a huge sand-bag order created boom conditions followed by depression in July 1939. Declaration of war put the industry again in a buoyant and optimistic mood. There was a flood of war orders,¹ production shot up and depression lifted but only temporarily to visit again in early 1940. Prices fell and stocks mounted up. Drastic measures to curtail production had to be taken so that improvement set in September 1940. Since then the industry has been enjoying a measure of prosperity. In 1942 the fall of Burma created a panic in Calcutta the main centre of the industry. The presence of the Japanese navy in the Bay of Bengal created further difficulties for the jute industry. The conquest by Japan of the Far Eastern islands and Malaya deprived the jute industry of its running markets and dislocated trade with U.S.A. where production of cotton bags was accelerated. All these factors led to the accumulation of stocks in Bengal and the prices of jute manufactures were depressed. There was improvement, however, after September 1942 when the tide of war turned in the Allies favour, orders flowed from America and from the Government of India. But it cannot be said that it was a healthy condition. Only restriction on output has helped it. Loss of continental markets and shipping difficulties have stood

1. Up to June, 1942, orders worth Rs. 31 crores had been received.

in its way in deriving full benefit from the war. World War I proved much more beneficial than the World War II.

8. Iron and Steel Industry : Acquaintance of Indians with the use and making of iron is said to date from 4000-5000 B.C. The Iron Pillar at Delhi, which is considered to be about 1,500 years old, is a marvel of metallurgical skill. It is admitted that not many years ago, making of such a pillar would have been an impossibility, and even now there are only a few factories in the world which can accomplish such a feat.¹

But the manufacture of iron and steel on modern lines and on a large scale was taken up only recently. About thirty years back the industry had not yet been properly established. Early attempts at making iron and steel almost invariably failed on account of want of expert preliminary inquiries, inefficient management, lack of experience and, above all, owing to the difficulty of securing adequate and timely financial assistance. Among such attempts may be mentioned those by Messrs. Motle and Farquhar in 1779, by Joisah Heath in 1825 and Messrs. Mackay and Co., Calcutta, in 1885, and several other attempts made in Bengal and Madras. The present Bengal Iron Co. was started in 1875 under the name of Barakar Iron Works at Kulti. It started manufacturing steel in 1905, but not finding it economic, gave it up. The first, really successful attempt was made by the Tata Iron and Steel Co. formed in 1907. Next year was formed the Indian Iron and Steel Co. with its works at Hirapur near Asansol, and in 1923 were established the Mysore Iron Works at Bhadravati. In 1937 was founded the Steel Corporation of Bengal.

The Indian iron and steel industry is practically synonymous with Tata Iron and Steel Works. It is the largest in the British India. The works are ideally situated because the necessary raw materials like iron ore or coal are to be found within an economic radius. As a matter of fact, there are few instances in the world where high quality ore can be landed at so low a price. No wonder that India can produce pig iron at the lowest cost in the world.

The World War I gave a great impetus to the iron and steel industry. In 1917 big extension plans were prepared which could be completed only in 1924. But by that time the industry was in throes of acute depression, and the Fiscal Commission recommended an immediate inquiry into the conditions of industry with a view to granting protection. The Tariff Board found that it fully satisfied all the conditions laid down by the

1. Ranade—*Essays on Indian Economics*, p. 172.

Fiscal Commission. Protection was accordingly granted in 1924 in the form of import duties and bounties. Some measure of protection has also to be given to the subsidiary industries lest they should be hit hard by the protection given to the main industry. In 1927 protection in the form of import duties was given for a further period of seven years, but it involved imperial preference, for steel of non-British origin was subjected to higher duties. Ottawa Agreement necessitated certain changes in 1933. On the expiry of the period of protection in 1934, the protective duties were revised. The industry felt that it could do with less protection and before long without any protection at all.

The Indian iron and steel industry has fully justified protection granted to it, for during this period of protection it has made remarkable progress. Productive capacity has been enlarged, processes have been improved and costs have been lowered.¹ The Tata Company's capital expenditure between 1929-1939 amounted to 7½ crores of rupees and an elaborate programme of extensions was planned in 1940 calculated to establish a new record of production of steel ingots and finished steel. They are now practically self-sufficient in iron and steel. About half a million tons of pig iron is annually exported and the quality of their steel is in no way inferior to the continental steel. The industry supports about 600,000 men and women workers and their dependents and contributes to the tune of Rs. 647 crores to the public exchequer. Rs. 25 crores worth of capital is invested in the industry. About its vital importance to the Indians there cannot be two opinions. For Indian defence it is indispensable. Several other allied industries have grown up and many others like the manufacture of locomotives and railway wheels are likely to develop. All types of machinery is still imported. There is therefore a great scope for expansion.

The production figures given below show the progress of the industry :—

Year	Pig Iron Tons	Steel Ingots Tons	Finished Steel Tons
1914 ...	162,282	139,433	98,726
1939-40 ...	1,837,636	1,070,355	804,469

9. Effect of World War II on Iron and Steel Industry :

Already before the outbreak of the war, the tremendous armament drive had produced a boom in the iron and steel industry. The outbreak of the war raised it to a still higher pitch. An era

1. Vide memorandum submitted by the Tata Co. to the Indian Tariff Board in 1933.

of unprecedented prosperity has begun. Prices, profit and production have gone high up. Heavy demands from the Defence Department and Railway and expansion of Government Ordinance factories have kept the iron and steel works feverishly active. The cutting off of the important European sources of supply increased the calls on the Indian industry and new extensions have been rendered necessary at Jamshedpur. Among the new manufactures may be mentioned high-speed steels, armoured piercing steel, bullet-proof armour plate, wheels, tyres and axles. In the domestic market, however, stringency was created by the control measures adopted by the Government.

10. Paper-Making Industry : In a country like India where the written word is still a mystery to millions of people, the paper industry cannot have the same importance as it has elsewhere. The modern paper-making industry owes its origin to Dr. William Carey, who about a century ago, set up the first paper making machine at Serampore on the river Hooghly. But the real beginning was made with the establishment of Royal Paper Mill at Bally in 1867. Other mills followed: Upper India Cooper Mill, Lucknow (1879); the Titaghur Paper Mills near Calcutta (1882); Deccan Paper Mill Company (1885); Bengal Paper Mill Company (1889); Imperial Paper Mills (1892 taken over by the Titaghur Paper Mills in 1903). Mills set up in the post-war period were Indian Paper Pulp Co. (formed in 1918 and commenced operations in 1922), Carnatic Paper Mills, Rajahmundry (1927) and Punjab Paper Mills at Jagadhri now Sri Gopal Paper Mill. More recently a mill has been set up in Assam, a paper pulp factory at Chittagong and several other mills were started in 1939. In 1942-43 sixteen mills were working to full capacity in India.

In the post-war period, the Indian paper industry suffered from foreign competition and was granted protection in 1924 particularly with a view to developing bamboo as the raw material. The results achieved vindicated this policy of protection. In 1932 therefore protection was renewed for a further period of seven years when imported wood-pulp was subjected to a duty of nearly Rs. 45 per ton. Again in 1939 protection was extended for a fourth period of three years though the import duties were lowered.

As for the raw material, India abounds in different species of grasses but on account of these being intermingled with weeds and other impurities, their separation is either impossible or uneconomical. Only sabai grass was found to be most suitable. But it has now been supplanted by bamboo as the staple raw

material for the paper industry. Abundant supplies of bamboo exist in India where the conditions of exploitation are highly favourable. The bamboo-made paper is superior to the grass-made paper, for it is singularly free from blemishes and spots and it not only possesses initial strength but retains sufficient durability. Between 1931-32 and 1936-37, the use of bamboo pulp increased by 269 per cent., grass pulp 27 per cent. and the imported pulp decreased 45 per cent. India has not yet exploited her vast forest wealth for making paper. In the Himalayas there are vast stretches of pine spruce and fir. Therefore, production of mechanical pulp from Indian wood has a brilliant future. Begasse, a by-product of sugar industry, is another raw material, the plentiful supplies of which are waiting to be used for paper-making purposes.

Indian mills have been spending large amounts in recent years in making additions to and improvements in the equipment of their plant. But there are still some important deficiencies. Several units are smaller than the optimum size. Much of the machinery is still old, if not obsolete, especially the paper-making plant and the plant as a whole is not a balanced one for the pulp-making and paper-making capacities differ.

There is now a wider range of output and the quality is also not inferior to the imported one. The paper now made by the Indian mills includes coloured banks and bonds, rag papers, embossed covers and writings, blotting paper and packing paper, super-calendered tinted printings and imitation art and craft. They can now make almost everything except newsprint which has to be imported and the requirements of newsprint are roughly 45,000 tons a year. Production of all qualities of paper in 1940-41 to 1,753,235 cwts.

The Paper Pulp Section of the Forest Research Institute, Dehra Dun, has been carrying on very useful experiments to further the development of the paper industry in India. It has been demonstrated that a good cheap wrapping paper can be made by a mixture of indigenous mechanical wood pulp and chemical grass pulp. Experiments have been made for the making of wrapping paper from ulla grass and craft paper from chir and pines. There are vast supplies of wood available in Kashmir and Tehri Garhwal which are suitable for the manufacture of newsprint. Proposals are under way for the manufacture of this paper.

There is a fairly large scope for the expansion of the paper-making industry in India. Although the Tariff Board estimated

the Indian market open to the Indian mills at 50,000 tons, yet as the drive against illiteracy gathers momentum demand for paper is bound to increase. Indian per capita consumption of paper was only 1.2 lbs. in 1938-39. In America it is 240 lbs. The production of paper in India has increased from 1,130,000 cwts. in 1939-40 to 1,821,000 cwts. in 1942-43.

11. Effect of World War II on Paper Industry : The effect of war on the Indian paper industry has been very drastic. Extension of war to the Baltic cut off the foreign supplies of wood pulp. Imports have practically ceased. Increase in Government activity and other war requirements have increased the demand. Mills have been working at their maximum capacity. There has been a phenomenal rise in prices and large profits have been made. But there is a serious shortage of paper and the general public is experiencing great difficulty in satisfying their requirements. The mills themselves have to pay abnormally high prices for imported stores and chemicals. A conference was held in December, 1941, in which maximum prices for paper were fixed. In 1942 Government desired to reserve 90% of their production for its own use leaving only 10% for the public. In 1943 the Government reduced its share to 70%. The mills have suffered greatly from transport difficulties and coal shortage. Severe restrictions were imposed on the use of paper for non-essential purposes. The Paper Production Commissioner was given wide powers in November 1942 to regulate production of paper, its supply and distribution. A campaign for the collection of waste paper was also started.

12. Sugar Industry : Gur-making : India is believed to be the original home of sugar. It is said that India manufactured and used sugar when the rest of the world even did not know its name.¹

The sugar industry has indigenous aspect in the gur-making industry. Spectacular growth of the white sugar industry seems to have eclipsed the gur-making industry but the latter occupies a very important place in the economic life. About 70 per cent. of the sugarcane grown in the country is utilized in the making of gur. The average per capita consumption of gur in India was estimated by the Tariff Board in 1938 at 25.8 lbs. and was as high as 72.4 lbs. in U. P., while per capita consumption of sugar is only 7.6 lbs. Production of gur for direct consumption was estimated in 1940-41 at 3,410,000 tons. It has been proved by scientific analysis that the nutritive value of gur is 30 per cent. higher than

1. Prinser Grasligs, quoted by Sanghi in paper read at the Industrial Conference held in 1916.

that of sugar.¹ Indian leaders and the Village Industries Association have been doing a great deal to popularise the consumption of gur. But the production of gur is extremely wasteful on account of feeble extraction and inefficient boiling. It is necessary to make improvements in the cane-crushing machinery, design of furnace and the pans and greater attention should be paid to the clarification so that more palatable and presentable gur can be placed in the market.

The World War II created a serious shortage of sugar and demand for gur and *shakkar* consequently became very keen. The prices of gur and sugar are now practically equal. This has considerably stimulated the production of gur.

13. History and Present Position of Sugar Industry. As for sugar, at one time Indian exports exceeded imports. But competition from Java sugar and the bounty-fed sugar from Europe dealt a death-blow to the Indian sugar industry and the area under sugar-cane shrank. The stimulus given by the World War I afforded only a temporary relief and the few sugar factories that existed in India were having only a precarious existence. At the instance of the Imperial Council of Agricultural Research, a Tariff Board was appointed in 1931 and the industry got protection as recommended by it for a period of fifteen years expiring on 31st March, 1946. Its development under the shelter of protective tariff is one of the most glorious and romantic chapters in the history of industrial development. Its progress was simply astounding and this in spite of economic depression, which rather proved beneficial by making land, machinery and materials available at cheap rates.

Within two years there was 400 per cent. increase in the number of factories and since 1931-32 production of sugar has increased 700 per cent. Area under sugarcane in 1929-30 was 2,677,000 acres and in 1936-37 it rose to 4,440,000 acres. There was also a sharp decline in imports which up to 1930-31 averaged one million tons but in 1936-37 the net imports were only 12,000 tons nearly. In 1944-45 there were 152 sugar factories and the quantity of sugar produced was as under :—

Quantity of sugar manufactured from cane	...	...	1,100,000 tons
Quantity of sugar refined from gur	...	...	10,000 tons
Quantity of Khandsari production	...	...	100,000 tons
<hr/>			
Total quantity of sugar	...	...	1,210,000 tons
The estimated consumption in 1943-44	...	...	1,100,000 tons

1. Vide Harijan dated April 20, 1935.

India is one of the largest producers of sugar in the world and the sugar industry in India is only second to the cotton-mill industry in importance. About Rs. 30 crores worth of capital is invested in the industry and it provides employment to 4,120,000 men in addition to 3,000 graduates and technical men and 20 million cultivators. It has stopped an annual drain of Rs. 16 crores nearly.

In order to make up for the loss of revenue arising from shrinkage of sugar imports and also to check over-hasty development of the industry under the artificial stimulus of import duty and the surcharges on import duty, an excise duty was levied on the production of sugar in India in 1934 at the rate of Re. 1-5-0 per cwt. which now stands at Rs. 3 per cwt.

In 1937 unrestrained internal competition depressed sugar prices to uneconomically low level. A Sugar Syndicate was formed for regulating sales and production of sugar in India. According to the Sugar Control Acts passed in U. P. and Bihar, the membership of the Syndicate is now compulsory for all mills in these provinces. A joint Control Board representing the manufacturers, cultivators and consumers was also set up and in 1940 a Sugar Commission was appointed with full powers to control prices and production. The Provincial Government also have the power to fix minimum prices of cane to ensure a fair return to the grower. The Government of India set aside Rs. 7 lakhs for the purpose of organizing the cultivators in co-operative societies so as to enable them to realize a fair price for cane. All these measures were considered necessary to pull the industry out of the critical condition through which the industry was passing in the years preceding the declaration of war.

14. Some Deficiencies in Sugar Industry. There are some handicaps and shortcomings from which the Indian sugar industry is suffering. The greatest handicap is that the yield of sugarcane in India is very low. It is one-third of Cuba, one-sixth of Java and one-seventh of Hawaii. The reason is that the best quality sugarcane can be grown only in the tropics, 'the land of the burning sun of the beating rain.' But 90 per cent. of the sugarcane acreage is to be found in the sub-tropical areas, which is really a wheat tract. Further, there is maldistribution of cane cultivation, so that there is superfluity round some factories and shortage in others. The Sugar Control Acts in U.P. and Bihar seek to rectify this situation by introducing the zoning system and by reserving and assigning areas for each factory. Again, the price of sugarcane delivered to the factories has ranged between 4 annas and 5 annas per maund, which is much higher as compar-

ed with Java where it is about one anna per maund. Improvement in the standard of cultivation and adequate provision of irrigation facilities are necessary to obtain heavier yield per acre. Another cause of our high cost of sugar production is the short crushing season. Therefore it is also necessary to find early-ripening and late-ripening varieties. Imperial Council of Agricultural Research, Provincial Departments of Agriculture and Imperial Cane-breeding Station at Coimbatore are all doing a great deal in the matter. The Government of India set aside Rs. 10 lakhs for research relating to sugarcane.

The milling efficiency is also lower than it can be on account of the absence of preparatory devices for cane before it is actually milled and also the defective size, design and lay-out of the plant and uneconomic size of several sugar mills. Most of the mills erected in the early period of protection were inadequate in capacity and too much cramped to allow expansion and patching and adding here and there made the plants unbalanced.

The location of several mills is unsatisfactory both from the point of view of the material and market relations. The U. P. and Bihar account for 75 per cent. of the sugar factories and 81 per cent. of sugar production. In Bombay, consumption of sugar is the highest but production is very low; in Bihar, on the other hand, consumption is very low and production is very large and in Madras production is small and consumption is very large. This involves unnecessary costly haulage. To remedy this defect a system of licensing of the factories should be introduced on an Indo-Pak basis and future expansion of the industry should be properly planned.

One of the most pressing problems of the sugar industry is the one relating to the utilization of by-products. Begasses used at present as fuel can be more economically used for the making of paper and paste board. Then, the ever-accumulating quantities of molasses are becoming a nuisance to the factories and a danger to public health. It can be used as fertilizer, cattle feed, for road surfacing and for the manufacture of power alcohol. On the recommendation of Joint Power Alcohol Committee, appointed by U. P. and Bihar Governments, necessary legislation in this connection has already been passed. With the utilization of by-products, price of sugar can be lowered and consumption increased.

Although the best quality Indian sugar is as good as the best imported foreign sugar, yet the average is smaller in grain, not so pure in colour and lacks in uniformity of crystal size. The review of 1939-40 season showed that the big and the medium grained

sugar lacked brilliance and contained twists, joint, and mixed crystals.

Another fundamental defect in the structure of the sugar industry is the divorce between the agricultural and the manufacturing sides whereas the integration of the two is the normal feature in other countries. Our factories do not grow their own sugarcane and, therefore, to regulate quantity and to improve the quality is beyond their control.

Further, unified control which is essential for a complete rationalization of the industry is lacking here, and there is no compelling force which could scrap obsolete plants and arrange all the processes in a manner calculated to eliminate all kinds of waste of labour, capital and material.

In India, conditions for the expansion of the sugar industry seem to be particularly favourable. She has an abundant supply of cane and cheap labour. Her population, being largely vegetarian, constitute a vast market. The present per capita consumption of 67 lbs. is insignificant as compared with 105.8 lbs. in Australia, 105.4 lbs. in Great Britain and 94.8 lbs. in U.S.A. Even a little raising of the standard of living will open out a large field for further expansion. With the resources at its command, India can aspire to be one of the biggest exporters of sugar in the world. But all the deficiencies mentioned above must be removed, the present structure fundamentally altered and industry properly planned. The International Sugar Agreement under which she is forbidden to export sugar imposes a severe handicap. The point of self-sufficiency having been reached, she must now seek outlets for our sugar abroad.

15. Effect of the World War II on Sugar Industry. The outbreak of the war did not bring any relief to the industry. Prices were artificially kept up by the Syndicate although the stocks were accumulating which meant a heavy strain on the industry. When in June, 1940, Government withdrew recognition from the Syndicate, centralized control disappeared and panic reigned in the sugar markets. The industry had to submit to a larger measure of Government control. Production was restricted and confidence was restored. But restriction of production threatened an agrarian crisis. In 1940-41 the production of sugar had exceeded expectation and reduction in output was considered necessary. Propaganda among the growers of cane led to reduction in area sown but it over-shot the mark. An acute scarcity ensued in 1941-42. There was sharp upward trend in sugar prices. The transport difficulties aggravated the situation

further. A Sugar Control order was promulgated in April 1942 under which the Sugar Controller for India was given powers to control the distribution of sugar in India and to fix prices. The order was subjected to severe criticism by the sugar industry. In 1942 there was a drive for increased production. The stocks are now being cleared somewhat. On the whole the sugar industry had been passing through difficulty in spite of the war. A group of sugar factories had been asked to manufacture ambulance stretchers in the off-season.

16. Leather and Tanning Industry. The leather industry occupies a very important place in the national economy of every country and it has come to be considered as a 'key industry'. The leather products are being extensively used in several other industries, e.g., leather bands, roller skins, belting, etc.

Pakistan has the reputation of having a large surplus of hides and skins. She supplies one-third of the total goat skins to the tanning industry of the world. The total export of raw hides in 1938-39 was valued at Rs. 3,84,66,560. The normal production of ours has been put at 22 million goat skins, and 5 million sheep skins, 20 million cattle hides and 3.5 million buffalo hides. The local tanning industry can absorb only about 75 per cent. of the cattle hides and 50 per cent. of goat and sheep skins and the rest is all exported.

The leather and tanning industry can be broadly classified into two sections: The indigenous and the modern. The indigenous industry of considerable extent must have existed in India for a long time to supply the military requirements of the Indian Maharajas and Nawabs. It is even now widely spread in the country using locally available tanning materials and producing crude leather to meet mostly the local demand. It is not confined to the depressed classes. In the Punjab and Bengal the industry produces bag-tanned buffalo sole leather for shoes and tanned sheep skins used for book-binding. Madras and Bombay specialize in semi-tanned leather meant almost exclusively for export. Madras has been the home of Indian tanning industry for a long time probably due to the availability of a local shrub whose bark proved to be an excellent tanning material. In 1845 Charles de Souza tried to improve the tanning processes there. Later, Madras Government took a special interest in the improvement of the tanning industry. Sir Alfred Chatterton's efforts in this connection deserve special mention. Discovery of chrome process in America and the introduction of machinery led to a decline of the Indian tanning industry and the hides and skins came to be increasingly exported in a raw condition.

In the modern section of the tanning industry are employed scientific methods of tanning used in the West, and there is an extensive use of mechanical appliances. The Government Harness and Saddlery Factory was set up in Cawnpore in 1867, and in 1880 the Government assisted financially the establishment of the Army Boot and Equipment Factory of Messrs. Allen and Cooper. Another important factory set up was the Western India Army and Equipment Factory in Bombay. Several other factories were established. There were in 1938, 14 leather and shoe factories, employing 6,736 persons daily, and 32 tanneries, employing daily 4,522 persons.

The military requirements have always loomed large before the leather industry. Its origin lay in the military necessity. During the last war, therefore, the industry received a special stimulus and the manufacture of boots and shoes after the war was twenty times greater than what it was before. The Indian Munitions Board directed its special attention to the development of the leather industry. After the last war 15% export duty on hides and skins was levied as a mean to develop the Indian tanning industry with a rebate of 10% on export to the countries within the Empire so as to foster the industry within the Empire as against Germany. But none of these objects was realized. The export duty was condemned by the Fiscal Commission as a wrong method of granting protection, and the Indian Taxation Enquiry Committee recommended its abolition. The duty was reduced to 5% in 1923 and abolished in 1935. In the post-war period the Indian tanning industry made a considerable progress.

The World War II too has given a special incentive to the further expansion of the industry. Plants have been modernized and extended. There are several big tanneries using the latest processes and most modern machinery. Numerous small tanneries have also come into existence. Phenomenal development has taken place in chrome tanning for shoe upper leather, box and willow sides and box and willow calf from calf skin. The manufacture of new lines like leather belting, roller skins, etc., has also been taken up. The tanners have their hands full with Government orders. The industry has taken long strides in here in recent years. In view of the fact that there is a vast market for shoes in India, that industrial development will increase the demand for leather goods for industrial purposes and that we have almost unlimited supplies of raw materials, the industry has altogether a bright future. The Governments of Bombay, Madras and the West Punjab are making vigorous efforts in fostering this industry. Tanning centres have been established

and peripetatic parties organize instructional classes in rural areas. Hide-grading stations have also been set up. All these efforts are bound to bear fruit.

17. Chemical Industries.—The chemical industries are of vital national importance. Heavy chemical industry is a 'key' industry par excellence. It is difficult to think of any important industry which does not use chemicals at one stage or another. The use of chemicals is essential in textile industries, iron and steel industry, paper industry, match industry, leather industry, and so on. Therefore, there is not the least doubt of the chemical industry being a basic industry. From the military point of view, too, chemical industry is indispensable. The importance of this industry can, therefore, be hardly exaggerated.

In spite of the great importance of this industry, Indians have made very little progress in this direction. Although Messrs. D. Waldie and Co. started manufacturing chemicals in India in the middle of the last century, yet the industry in India has been established only in the present century. She seems to be fully one century behind. Some progress has been made in the manufacture of sulphuric acid, but as for alkalis not much has been attempted. Lack of knowledge and trained personnel are largely responsible for this slow development. Besides, the Indian market has been dominated by powerful foreign combines. What little success has attended Indian enterprise in the manufacture of sulphuric acid is mainly due to the fact that there are difficulties in importing it.

During the World War I, production of chemicals was stimulated to some extent, but no appreciable progress was made. In 1928 the question of granting protection to the industry was referred to the Tariff Board on whose recommendation protection was accorded to it in 1931 which was further extended, though the import duties were lowered, up to 31st March 1946. Two recent ventures deserve special mention, *viz.*, one by Messrs. Tata & Sons, and the second Imperial Chemical Industries, a powerful British combine which has taken a lease of Dundot area in the Pakistan. In 1938 there was 30 chemical factories employing daily 4,484 persons.

The recent war has given a great push to the chemical industry. The Government was specially interested itself in its development on account of its importance for war purposes. A survey of all the possibilities had been undertaken. The Scientific and Industrial Research Bureau has been devoting much attention to the problems of the industry. A Government plant

has been erected. Manufacture of soda ash, aviation spirit and of a large number of drugs and several other chemicals previously obtained from abroad has been started, and the manufacture of old chemicals like sulphuric acid and sulphate of ammonia has been considerably increased. But still the production of chemicals in India is insignificant as compared with that produced in America and some European countries like Germany.

There are no doubt certain handicaps. We rely on imported sulphur, our deposits of sulphur being either inaccessible or not capable of economic supply. Deposits of pyrite are also insufficient. But otherwise, the chemical resources are fairly adequate. According to the Indian Munitions Board, India is well endowed for the successful development of chemical industries both as regards materials and markets. We have got large supplies of alum salts, lime stone, magnesium, and also sulphuric ores. We are already producing large quantities of coke from which colatar can be manufactured. We may, therefore, reasonably hope to manufacture successfully various types of acids, alkalies, disinfectants, dyes, vegetable and essential oils, coal-tar, etc. Our present dependence for essential chemicals on foreign supplies is dangerous and pitiful. In 1940-41 chemical imports amounted to Rs. 556 lakhs. Now that cheap electricity for electro-chemical products is available here, it is hoped that full use of our vast potentialities will be made.

18. Oil Crushing Industry. India is the largest producer of oilseeds in the world. But it is a pity that instead of crushing the seeds for oil inside the country, large quantities of oilseeds are exported abroad, India being the largest exporter of oilseeds in the world. This is industrially unsound and economically unprofitable. The country not only loses manufacturers' profits but is also deprived of large potential wealth in the form of oil-cake which can be used as cattle feed or fertilizer.

The World War I gave great stimulus to the industry. During the war period the average export of linseed oil, groundnut oil and castor oil increased by 443%, 150% and 60%, respectively, but the export of oil-cake did not register any marked increase. The industry has made considerable progress since the last war. There are about 500 big oil mills and about 1,000 medium size mills in operation for crushing seeds in the various parts of the country. The mills cater to the needs of the townspeople and manufacture oil for export. In addition to these, the indigenous oil mills run by bullocks are working throughout the country. Thus immense quantities of oil are manufactured in the country.

But this oil is full of impurities and has not got a good colour so that it can be put to limited uses only.

There are several handicaps from which the Indian oil industry suffers. In the first place, there are high protective tariff walls in other countries against oils, whereas the oilseeds are admitted free of duty. This encourages the export of seeds from India and discourages the export of oils. Secondly, the freight on oils is higher than on oilseeds, which makes it more economical to export oilseeds. Thirdly, oil-cake finds better market in Europe than in India. Very little oil cake is used in India as fertilizer and as for its use as cattle feed, Indians have a deep-rooted prejudice against oil-cakes made by machines. They think that the cake made by the bullock mill containing more oil is more nourishing. Lastly, the export of oil requires special shipping facilities, e.g., tanks for bulk export, whereas export of seeds does not stand in the need of any special arrangements.

The World War II having created difficulties in the way of exports, afforded great opportunities for the development of the oil industry. Already modern processes and efficient plants are being extensively used. It is necessary to extend such improvements still further. Almost unlimited supplies of the raw material are available. Preponderance of agriculture and a huge livestock should constitute a vast market for the oil-cake. Oil is a necessary ingredient in the soap, glycerine, lubricant, paint and varnish industries. Its use is capable of further extensions. But if the industry is to be placed on a sound footing, standardization of oil and oil-cakes will be essential. Besides, educative propaganda will be necessary to persuade the farmer to use oil-cake as fertilizer and convince him that machine-made cake as cattle feed is quite wholesome.

19. Glass Industry : Glass industry in India is of great antiquity. It is believed to have been in existence centuries before Christ. Pliny testifies to the superiority of Indian glass, and Sir Alfred Chatterton speaks of the Indian glass industry as being an established industry in the sixteenth century. An ancient branch of the Indian glass industry believed to be more than two hundred years old is said to exist at Panipat in the E. Punjab.¹ But primitive methods, bad materials and crude products were the main characteristics of this old industry.

The Indian glass industry, as in the case of so many other Indian industries, has two well-defined sides, the indigenous and

1. Bulletins of Indian Industrial Research No. 2. A Survey of Glass Industry by E. Dixon, 1936.

the modern. The indigenous side of the industry is mainly concerned in the making of bangles and is widely spread throughout the country, especially in Bombay and Madras Presidencies. But the real home of the cottage industry is in the Indo-Gangetic basin with its large supplies of skilled labour, coal and saltpetre, and there it is concentrated at Etah, Fatehpur and Firozabad, especially the latter. Belgaum in the south is another centre. At Firozabad there are about 100 regular glass-making factories. But more modern tastes and competition from glass factories turning out better bangles, especially competition from 'silk' bangles made in Japan, are hastening the decay of this indigenous industry. These tiny factories outside Firozabad are dragging a precarious existence. The World War II, however, arrested the decline by affording a welcome respite from foreign competition.

The modern factory industry dates from the nineties of the last century when five factories were set up, but the attempts proved abortive. In the beginning of the present century up to the outbreak of the World War I sixteen more factories were set up under the stimulus of Swadeshi sentiment, but with no better results. These pioneer attempts failed chiefly on account of lack of experienced management and skilled labour, wrong choice of site creating difficulties in procuring sufficient supplies of some essential materials and difficulties of finance. But the industry, somehow struggled on till the World War I came to its rescue. After the war, however, revival of keen foreign competition again put the industry in difficulties. The Tariff Board in 1932 recommended protection for 10 years, but the Government rejected the claim for protection on the ground that sufficient supplies of indigenous raw materials were lacking and that the industry had to rely on imported soda ash. This decision caused bitter disappointment.

The World War II has helped the industry a great deal. The U. P. Government of late took keen interest in the development of the industry. A glass technology section was established in 1938 and a glass technologist was also appointed. The section has been doing very useful work. Several new lines required by the Defence Department were evolved and handed over to the industry for regular production. Under the guidance of the technologist, furnaces were improved, numerous glass shaping, refining and decorating plants installed. Factories with modern equipment were set up at Ghaziabad, Benares and Firozabad. For the use of the cottage industry at Firozabad, a glass plant was set up. Technical improvements of fundamental character were effected. Several new lines were initiated, e.g., stoppered glass

bottles, glass slides for microscopes, prismatic glass, opal shades for use aboard ships, tinted spectacles, etc. The Indian glass factories now manufacture lamp chimneys, globes, tumblers, jars, flower pots, bottles, sheet glass, electric bulbs, boiler gauges, steam ware, hospital ware, etc. Foreign imports were being rapidly replaced. Annual production of Indian glass industry has been valued at Rs. 200 lakhs and there are about 100 factories, meeting about 50% of the home requirements. Most of the Indian glass works are small and there are a few large works too, e.g., Allahabad Glass Works at Bahjoi, the Ogale Glass Works in Aundh State, Bombay Presidency, and the Paise Fund Glass Works at Talegaon, near Poona. It is the latter that supplied trained workers to other glass works throughout India. The main centres of the industry are in five provinces—U.P., Bengal, Bombay, C. P., and the Punjab.

The glass industry in India should have quite bright prospects. Indian market for bangles and other glass ware is quite vast. One crore of rupees worth glass wares were imported in 1933-34. Sufficient trained personnel is now available. Electricity can supply cheap power. Major raw materials in sufficient quantities are also available, only soda-ash has to be imported. India has plentiful supplies of suitable sands scattered in various parts of the country, e.g., near Allahabad, in Baroda State, Jodhpur State, Jubbulpore and at Jaijon in Hoshiarpur district in E. Punjab. Efforts should be made forwards placing the industry on a sound and stable footing.

20. Cement Industry : It is an important 'key' industry and is especially important from the point of view of national defence. Its economic importance can be judged from the fact that it is one of the best customers for coal and jute industries and provides employment to 10,000 workers.

The Indian cement industry is a fascinating study both from the point of view of its phenomenal development and unique organization. It is an industry without a past. Though young in years, it has already grown to full stature. From a manufacturing capacity of 85,000 tons in 1914-16, it increased its capacity to 581,000 tons in less than 10 years in 1924 i.e., 583.6% increase, and the combined capacity of the A.C.C. and Dalmia group of factories is now estimated at 2,800,000 tons, i.e., an increase of about 300%. The Indian factories in 1914 satisfied only 6% of the home demand whereas in 1937 the corresponding figure was 97%. Few industries in India, except perhaps sugar, can show a record of so rapid a development.

The first cement factory, which owed its origin to the enterprise of South Industrials Ltd., Madras, commenced operations in 1904. But its methods being not technically efficient, the factory had later to close down. The real foundation of the industry was laid in 1912-13, when 3 factories were set up. They had hardly commenced operations, when the World War I broke out and the Government assumed control of production. The prosperity of these companies led to the establishment of seven more factories, and the existing factories doubled their capacity between 1919-22. As a consequence, productive capacity exceeded demand and cut-throat competition ensued, under which most of the concerns had to suffer. The Indian Tariff Board in 1924 refused to recommend protection on the ground that the misfortunes of the industry were due to over-production and internecine competition. The Board, however, recommended bounties on the consignment of cement to certain ports and railway stations under certain conditions. This the Government refused to accept.

But the Board's suggestion to the industry for closer co-operation was readily accepted. In 1927, Concrete Association of India was formed to carry on propaganda and educate public opinion in the use of cement. The Association certainly created 'cement-mindedness' and increased the demand for cement. The formation of the Cement Marketing Co., 1930, was the next step. It centralized the selling arrangements and assigned quotas of production to the various factories. But the system was defective inasmuch as most of the factories had to work below capacity and even the least efficient ones were kept alive. A merger was, therefore, established in 1936 under the name of Associated Cement Cos. Ltd. (A.C.C.) But the advent of the Dalmia group in 1936 made a breach in the integration of the cement industry. Luckily an arrangement was arrived at between the two groups and a joint selling organization was set up. The cement industry in India is thus strongly organized both on the productive and distributive sides, and marked improvements have been effected in the technical and commercial aspects of the industry. By rationalizing itself the cement industry has given an excellent lead to other Indian industries.

India has become almost self-supporting in cement. Only 21,000 tons were imported in 1938-39. Establishment of A.C.C. factory at Bezwada, extension of their units at Coimbatore and the opening of Dalmia factory at Trichinopoly are likely to stop even this small quantity imported.

The location of some of the cement factories in India is not quite favourable. Proximity to raw materials is there. But the factories are situated far from the coal-fields. The nearest factory is at a distance of 200 miles, and several factories are at a distance of more than 1000 miles. No cement works up to 1925 were situated within 350 miles of Calcutta and 250 miles of Bombay, and these two ports and their surroundings consumed more than half the cement consumed in the country. Most of the cement works were thus seriously handicapped by their remoteness from the chief consuming centres. The Dalmia group did not suffer from these defects to the same extent.

Another predominant feature of the Indian cement industry is that its productive capacity has always exceeded the demand or the actual output. It means an unnecessary strain of interest charges on the industry and consequently the costs are higher than they need be.

Indian market for cement is still largely undeveloped. London alone consumes more cement than what is consumed by the whole of India at present. Till a few years ago the use of cement was confined to heavy structural items of engineering construction, but, thanks to the propaganda carried on by the Concrete Association, recently more delicate and everyday uses have been found for cement. The cement-made articles are invading the office, the workshop, the farm and the market-place. The making of these articles will lay down the foundation of a new cottage industry.

The advent of the World War II created a confusing situation for the cement industry, for opposite influences were at work. On account of higher prices and scarcity of steel, higher wages, higher cost of other materials, imposition of Property Tax, building activity, practically came to a standstill. The local authorities and Public Works Departments suspended their building programmes. The war, therefore, seriously affected the demand for cement from the civil population. But expansion of industries and Government requirements for war, especially for A.R.P. work, created a new demand. After the outbreak of war the work of military construction was speeded up and it required large quantities of cement. Also demand appeared from the oversea markets. Between September 1939 and 31st December 1940, A.C.C. exported overseas 100,000 tons of cement. In view of the fact that satiety level has already been reached so far as home demand is concerned, this new development, i.e., expansions of foreign markets, has a great significance for the

future of the Indian cement industry. On the whole, the cement industry has made steady progress during the war period. The public has experienced an acute shortage of cement. Restrictions were imposed on civilian consumption. Prices rose high. The A.C.C. extended their factory at Coimbatore adding 50% to its productive capacity.

21. Match Industry : The Indian match industry is of a very recent growth. The only successful factory up to 1922 was the Gujerat Islam Match Factory established at Ahmedabad in 1895. All other factories started during the pre-war period had to be wound up either on account of financial difficulties or ignorance and inexperience of the management or on account of wrong choice of the site.

The year 1922 was important in the history of the Indian match industry. In that year the import duty on matches was raised to Re. 1-8-0 per gross. Although the duty was imposed primarily for revenue purposes, it did afford substantial protection to the Indian industry, and under its shelter several factories were set up. The industry took long strides. According to the Tariff Board in 1928, there were 27 factories with the productive capacity of 85,000 gross. In 1938, there were 88 factories employing on average 12,765 persons daily.

The match industry, finding itself in a difficult position in 1927, applied for protection. But the only relief recommended by the Tariff Board in 1928 was the conversion of the revenue duty into a protective one, thus ensuring its continuity. The bewailings of the Indian concerns, however, against the throttling competition of a gigantic Swedish combine working in India, did not receive any sympathetic consideration.

The Indian match industry has the advantage of a large home market estimated at 17 million gross a year and a plentiful supply of cheap and fairly efficient labour. The industry has also made a very rapid progress. Not long ago, we relied on imported matches, but the imports now are negligible. Imports in 1921-22 were 13.68 million gross and in 1938-39 only 1,263,000 gross. Production of matches in India in 1940-41 was 23,124,788 gross. We are now practically self-sufficient in our requirements for matches. All this seems to be very satisfactory.

But the disquieting feature in the Indian match industry is the dominance of the all-powerful Swedish combine controlling about 70% of the world match market. Development of the Indian match industry is largely the development of this foreign concern. This strong rival of the Indian concerns jumped over

the tariff wall and launched an ambitious programme of setting up a number of factories in India. In 1928 it had only 4 factories, but now about a dozen of them. Even in 1926 it had captured 50% of the Indian market. It has since entrenched itself very strongly and is proving a great menace to the prosperity of the Indian companies. By the adoption of unfair methods, it has already taken a toll of many Indian concerns. Its recent reconstruction with rupee capital and taking a few dummy Indian directors on the board hardly changes the situation. India will lose whatever benefit the policy of discriminating protection can confer, if foreign concerns under the guise of 'India Ltd.' are allowed to be started inside the country.

22. Tea Industry : India enjoys the enviable position of being the largest exporter of tea in the world, supplying more than 40% of the world demand for tea. Tea industry is an important Indo-Pakistan industry with capital investment of £100,000,000.¹ It is a different type of industry, representing a combination of agriculture and industry.

For a long time China tea was supreme in European markets. It was in 1820 that indigenous tea was discovered in Assam, and the researches of Captain Jenkins and Lieut. Charlton led to the establishment of tea gardens in Assam. The East India Company started an experimental garden in 1835 which was sold in 1840 to the Assam Co. which even today is the largest concern. Real foundation of the industry was laid in the middle of the last century, and the industry made a very rapid progress. In 1850 there was only one estate with 1,876 acres, and by 1936 the number had risen to 6,324 estates with an area of 832,800 acres. The area under tea in 1939 was 833,000 acres. Production of tea has risen from an average of 201 million lbs. in 1900-1904 to 463 million lbs. in 1940-41. The Chinese tea was gradually ousted from the European markets. Between 1896-97 and 1938-39 exports from China decreased by 90% and those from India increased by 132%. In 1854 the imports of Indian tea into U.K. were only 500,000 lbs. against 61,500,000 lbs. from China. In 1938 the position was completely reversed, the corresponding figures being 292,524,000 lbs. and 6,962,000 lbs. respectively. Thus "in less than a hundred years the British Empire had become the tea garden and the tea shop of tea world."

Cultivation of tea depends solely on climatic conditions. Tea gardens are found in Assam, Bengal, Bihar, Southern India and Pakistan. But they are largely concentrated in Bengal and

1. Fluff and Sweeping—an article in the Jubilee Number of "Capital," 1938; p. 106.

Assam, the latter alone in 1938 contributed 57.7% of the tea produced in the country. The yield of tea per acre varies from province to province, the highest being 728 lbs. per acre in Assam and the lowest 44 lbs. in Garhwal. The standard of tea cultivation in Kangra valley is said to be very poor. It was suggested that the Punjab Government should periodically place the services of scientific advisers at the disposal of the tea growers in Kangra.

The domestic market for the tea industry is comparatively undeveloped on account of prejudice and poverty. Therefore, the discovery of new foreign markets and the expansion of the existing ones is the very life and soul of the tea industry. Economic depression in the thirties hit the tea industry very hard. On the one hand, there was over-production in all the tea-growing countries and, on the other, policy of aggressive economic nationalism resulting in stringent restrictions on imports and the lack of foreign exchange cut down the demand. There was a catastrophic fall in prices: 1932-33 was the worst year. To save the industry from utter ruin, an international agreement was entered into in 1933 for five years among the principal tea producing countries of the world. The agreement was renewed in 1938 for the next five years. Under the agreement export quotas were assigned to the contracting countries from year to year. The Indian export allotment for 1940-41 was fixed at 334,918,624 lbs. To push the sales of tea in foreign markets, an International Tea Market Expansion Board was established and financed by the contracting parties. The Board has succeeded in creating 'tea-mindedness' and tea imports into several foreign countries have increased substantially. The United Kingdom is our most important customer and absorbed, in 1938-39, 87.3% of our exports. The U.S.A. and Russia are other promising markets. In 1939-40, 79% of the tea produced in the country was exported and the exports amounted to 4.35 million lbs. valued at Rs. 2,603 lakhs. The exports in 1942-43 were 321 million lbs. nearly and were valued at Rs. 3,160 lakhs. The production of tea in 1942-43 marked a record figure of 564 million lbs.

But the key to the problems of the tea industry will be found in India itself. At present the consumption of tea in India is very small, but the teeming millions of India offer almost a limitless market. The Indian Tea Market Expansion Board has been carrying on publicity campaign by opening tea shops, distributing free cups of tea, selling pice packets, through travelling cinemas, demonstrations and advertisements in the press. It has been trying to fight the double prejudice, i.e., prejudice against tea drinking based on the opinions of quacks and pseudo-medical

men and secondly the belief that tea comes from gardens where Indians are treated worse than slaves. The Board has been trying to show that tea is the best all-round beverage and that it is no longer the "blood of the coolie". It has also emphasized the Swadeshi character of the industry. The consumption of tea in India has been rapidly going up. It was only 30 million lbs. in 1919-20; even as late as 1930-31, it was only 38 million lbs., but in 1940-41 it was estimated at 106 million lbs. But this figure is insignificant as compared with the vast potential market which has been estimated at 580 million lbs. a year.¹ It is hoped that sustained propaganda will pay in the long run and the home market will expand still further. The publicity campaign is financed by the industry itself out of the Tea Cess Fund created in 1903. The rate of the cess has been raised from time to time; it was $\frac{1}{4}$ pie per lb. in 1903 and Re. 1-6as. per 100 lbs. in 1939 and the amount collected in 1939-40 was Rs. 47,04,000 and for propaganda work in India in 1939-40 Rs. 20 lakhs were allotted. India's contribution for propaganda abroad in 1939-40 was £158,000 out of a total expenditure of £370,000.

The Indian tea industry has endeavoured, from comparatively early time, for improvement of both the quality and yield of tea by scientific research. The Indian Tea Association established in 1911 a research station at Tocklai which has been doing very useful work. A commission under F. L. Engledow of Cambridge made useful recommendations for intensifying research and adding to its utility to the industry. A closer contact between the research station and the management of tea gardens will be highly beneficial.

The World War II had an unsettling effect on the tea industry, the continental markets disappeared, prices fluctuated and export quotas had to be revised. When Japan entered the war, important sources of supply like Formosa, China, Japan and Dutch East Indies were closed to the United Nations. The demand for Indian tea therefore increased. The war with its strain and fatigue vastly increased the demand for tea from U.K., Australia and Middle Eastern countries. The U.S.A. alone increased its demand to 102.5 million lbs. in 1940-41 as compared with 80 million lbs. in the preceding year. The Food Ministry offered to purchase 323 million lbs. Thus the loss of Continental markets was more than made up. Confidence in the industry was restored and profits increased. The tea industry derived full benefit from the war. The tea plantations were very near the

¹ 1. Reports of the Imperial Economic Committee: 18th Report (Tea), 1931, p. 56.

war zones and there were also transport difficulties. The tea industry therefore got its share of war troubles.

23. Tobacco Industry: India is indebted for tobacco to the Portuguese who are believed to have introduced it here in the beginning of the sixteenth century. The importance of the tobacco industry in India can be judged from the fact that the annual value of the crop has been estimated at Rs. 18 crores. Till the separation of Burma, India was the largest producer of tobacco and now it is next to U.S.A., its area under tobacco in 1938-39 representing 28 per cent. of the world acreage.

Tobacco in India is grown in five well-defined areas: (1) North Bengal area producing tobacco suitable for cigar, cheroot, hooka and chewing; (2) the Guntur area in Madras growing Virginia cigarette and pipe tobacco; (3) North Bihar area for chewing and cigarettes; (4) Gujerat area in Bombay and Baroda mainly for bidis, Virginia tobacco is also being attempted; and (5) Nipani area consisting of Belgaum and Satara districts of Bombay and some neighbouring States. But besides these special tobacco-growing areas, tobacco is extensively grown in all parts of the country for local consumption. Tobacco grown in India is partly manufactured in India and partly exported. The Indian Leaf Tobacco Development Co. is the biggest purchaser and accounts for more than half of the total crop.

Numerous factories have been set up during the last 20 years for manufacturing tobacco. In 1938 there were 30 factories employing about 12,000 workers daily. Factories at Bangalore, Calcutta, Saharanpur and Monghyr are quite big.

The various tobacco manufactures include hooka tobacco worth Rs. 9.60 crores, cheroots Rs. 9.20 crores, bidis Rs. 7.52 crores, cigarettes Rs. 5.86 crores, chewing tobacco Rs. 3.02 crores, snuff Rs. 1.53 crores and cigars Rs. 0.15 crores. The total value of the manufactures has been put at Rs. 37 crores nearly. Cigars and cheroots are specialties of Madras, bidis are made in almost all principal cities but Poona, Jubbulpore and Nagpur are the chief centres. It is a very flourishing cottage industry in C.P. providing employment for about 50,000 persons. Hooka tobacco is made almost everywhere but Rampur, Gorakhpur, Lucknow and Delhi are specially famous for it. Delhi and U.P. also specialize in chewing tobacco and the Punjab, N.-W.F.P., Madras and Mysore in snuff. But there being no standardization, the qualities produced in different places differ.

Imports of tobacco in 1942-43 were valued at Rs. 133 lakhs and exports Rs. 149 lakhs.

Vigorous attempts have been made in recent years in improving the quality of tobacco grown in India and for exploring the possibilities of growing superior varieties. In 1936 Imperial Council of Agricultural Research established a tobacco sub-station at Guntur and Agricultural Departments in several provinces have set up their own research stations. The Indian Leaf Tobacco Development Co. itself has done a lot in improving Indian tobacco grown in various parts of the country. The Mysore Tobacco Co. has stimulated the cultivation of Virginia tobacco in Mysore.

Steps have also been taken to improve marketing of tobacco in India. Indian Tobacco Association representing the growers, dealers and manufacturers has been established to assist the trade in standardizing and preparing the tobacco before marketing. The Madras Commercial Crops Markets Act of 1939 seeks to regulate marketing practices in tobacco.

24. Lac Industry : India produces 40,000—50,000 tons of lac every year and it is chiefly used for polishing furniture. It is also used in gramophone records, filling hollow gold and silver ornaments and for lacquering wooden toys, penholders, etc. But for all these purposes India can hardly consume 3 per cent. of the total production of lac in the country and the rest is all exported, U.S.A. being the most important customer.

The development of the lac industry has been stimulated by the growth of the gramophone record industry which consumes about 40 per cent. of the world production of lac. In India about 300 tons of lac are consumed by the gramophone record industry.

Besides gramophone records, lac is utilized in foreign countries in the manufacture of French polish, floor varnishes, insulating varnishes and cements, grinding wheels, hats, leather, dressings, paper-finishes, etc. This shows what a wide field lies open for the development of lac industry. We are yet far from making full use of this valuable material. The Indian Lac Research Institute at Namkum in Bihar is doing useful work in suggesting new openings for the use of lac and improving its cultivation.

25. Cinema Industry : Film industry is one of our youngest industries. It celebrated its Silver Jubilee in 1939. But it has developed very rapidly and already it has come to occupy eighth place among the Indian industries. It provided employment before the war to about 15,000 persons including 4,000 artistes and technicians to whom it pays Rs. 50 lakhs in the form of salaries. Its annual contribution to the Central and Provincial

exchequer amounts to Rs. 1.21 crores, the entertainment tax yielding about Rs. 40 lakhs yearly. About the importance of the film industry in India, therefore, there cannot be the least doubt.

The first Indian film "Harish Chandra" was produced in 1913. The advent of the talkies accelerated the development of the industry. There are about 150 companies engaged in producing films and there are about 50 studios, the more important centres being Bombay, Calcutta, Lahore, Madras and Poona. But Bombay accounts for two-thirds of the total number of films produced in the country and is, therefore, entitled to be called "India's Hollywood." In addition to about 500 touring cinemas, there were in 1943, 1460 permanent cinemas. The gross annual income from Indian films has been estimated at Rs. 2.40 crores. Capital investment in the production and distribution of films has been put at Rs. 8 crores, the yearly expenditure on production of films being 2 crores. The number of distributing companies is about 150.

But so far we have confined our activities to the production and distribution of films. For raw films and cinema equipment we exclusively rely on foreign countries. In 1939-40 we imported raw films valued at Rs. 31 lakhs and cinema equipment worth Rs. 8 lakhs. The increasing demand for films in India should open out quite a promising field for some enterprising Indian industrialists to take to manufacture of raw films and cinema equipment.

Presiding over the sixth ordinary general meeting of the National Studios in January 1946 Mr. J. K. Shroff sounded a note of warning to the industry. According to him our studios are too small, production is haphazard, ill-inconceived and governed by personal whims and fancies. In order to ensure ordered growth and eliminate wasteful competition, the industry must be properly organized.

26. Silk Industry : The position of silk as a cottage industry has already been reviewed. Up to 1830 India used to export large quantities of silk goods but we have seen how Indian silk goods came gradually to be ousted both from internal and external markets. We have also noticed how recently Government tried to help this industry through protection and otherwise.

Besides the cottage industry, silk factories have also been set up. But with a few honourable exceptions like Sassoon and Alliance Silk Co., Bombay, most of the factories are comparatively

of a very small size working with a few hundred workmen. There were in 1938, about 100 silk factories employing about 6,000 workers daily. These factories have to rely almost exclusively on silk yarn imported from abroad, especially China and Japan. But there are several large tracts in India suitable for sericulture. There is no reason why, aided by scientific research, we should not be able to dispense with the raw silk and silk manufactures imported from abroad. India imported in 1940-41 silk, raw and manufactured, valued at Rs. 172 lakhs.

27. Wool Manufactures : Apart from the woollen cottage industry, woollen mill industry in India has also been developing to some extent.

The first woollen mill was set up in 1876 at Cawnpore. A few mills were established in the next decade, the most important being the Egerton Woollen Mills at Dhariwal. The World War I gave some stimulus to the industry and three mills were set up in Bombay between 1919-21. Severe foreign competition led to the liquidation of some mills in 1924. In the thirties the woollen industry was in a grip of depression. But the Government could not see its way to accepting Tariff Board's recommendation in 1934 for granting protection to the industry. Instead a grant of Rs. 5 lakhs spread over 5 years was given for the development of the cottage woollen industry.

There were in 1937, the latest year for which statistics are available, 39 woollen mills with 1,958 looms, 68,107 spindles and Rs. 100,89,739 paid-up capital. The woollen manufactures include flannels, serges, tweeds, broad cloth, blankets and rugs. The mills use largely Indian wool and only for finer fabrics they have to depend on Australian wool. Bombay, Cawnpore, Dhariwal (E. Punjab) and Bangalore are the chief centres of the industry.

The Indian climate being more suitable for cotton than woollen cloth, the possibilities for the expansion of the woollen industry are not so wide. But considering large imports of wool, raw and manufactured, valued in 1940-41 at Rs. 429 lakhs, there is considerable field for further expansion of the industry. No doubt Indian wool is inferior but superior wool can be imported. Several other countries have developed their woollen industry with imported wool and there is no reason why this industry should not be further developed in India. Our mills at present satisfy only a fraction of our total demand.

The World War II gave a great fillip to the woollen industry. The woollen mills in India worked to their maximum capacity

to meet the clothing requirements of the growing Indian army. The import of raw wool shot up in 1940-41 from Rs. 75 lakhs to Rs. 279 lakhs, which reflects an increased manufacturing activity in India.

28. Some Other Industries: Salt Industry: Salt can be manufactured in many parts of India. Only in Bengal, Bihar and Orissa it is difficult to manufacture it on account of damp climate and fresh Ganges water poured into the sea.

There are three sources of salt in the land. (1) Rock salt from salt range and Khewra mines in Pakistan—almost an inexhaustible source; (2) brine salt chiefly from Sambhar Lake in Rajputana; and (3) sea salt factories in Bombay and Madras. Roughly one-half of the indigenous salt is made under Government agency and the remainder under licence and excise systems.

The salt industry was given protection on the recommendation of the Tariff Board in 1930. But there was a cut-throat competition between India and Aden salt interests. In 1935 a Marketing Board was set up as recommended by the Tariff Board to eliminate foreign competition. The salt duty was continued up to 1938, although it was progressively reduced. Production of salt in Pakistan has increased in recent years, while imports have ceased. In 1930 India imported 688,629 tons and in 1937-38 it came down to 347,000 tons. With the resources at her command, India can easily hope to become self-sufficient in salt.

Engineering Industries: The engineering industry in India came into existence during the latter half of the last century. But it was mainly confined to the repairing activity in connection with the railways. With the development of modern large-scale industry, workshops came to be established. Recently the Tata Iron and Steel Company stimulated the development of several engineering lines so that now several types of tools and implements are made in India. But even now the engineering industry is chiefly a repairing industry. India still relies almost exclusively on imported machinery which on average comes to Rs. 16 crores worth yearly. To the value of machinery may be added transport, insurance and other charges. All this means a considerable initial handicap to the Indian industrialists. High capital cost, scarcity of efficient labour and internal competition are some of the difficulties that the engineering industry has to face.

The engineering industry is centralized in the chief industrial centres, like Bombay, Calcutta, Cawnpore, Nagpur, Ahmedabad,

Madras, etc. There were in 1938, 935 engineering works employing 143,257 workers daily besides 106 foundries employing 5,513 workers.

Paints Industry: The first factory for the manufacture of paints was set up in 1902 near Calcutta. This first venture proved to be quite lucky and had a prosperous career. It manufactured very high quality paints. No other concern of this type was floated for some years. The industry received some stimulus during the World War I and since then it has been making a steady, though not marked, progress. In 1933 there were thirteen paint factories employing 1,616 persons daily. India produces all the essential ingredients required in the making of paints, e.g., turpentine, linseed oil, red oxides, barium sulphate, etc. Production of paints has appreciably gone up during the last few years. In 1937-38 the output of paints of all types was 516,000 cwts. and in 1940-41 it was 886,666 cwts.

Soap Industry: Conditions for the manufacture of soap are quite favourable here. Large quantities of vegetable oils are produced in the country and their supply can be increased still further. Only caustic alkalies have to be imported. There is a large home market, cheap labour, lower level of taxation and existence of import duty on foreign soap—all these factors go in favour of the soap industry. The first Indian soap factory on modern lines was started in Meerut in 1879 by N. W. Soap Co. Under the influence of Swadeshi movement a number of factories were started in Bengal of which the Bulbul Soap Co., the National Soap Works and Oriental Soap Works deserve special mention. Production of soap on the eve of War (1914-18) was only 20,000 tons. The war provided a great stimulus. Between 1935-39, there was a marked increase in production which amounted to 70,000 tons. Soap of all kinds and of excellent quality are being produced, washing soap being 90% of the total production. Not only are there small concerns making soap all over the country, but also big companies like Modi Manufacturing Company, the Tata Chemical Company, Godrej, and Lever Brothers etc. manufacturing large quantities of good soap. It is necessary to develop simultaneously the allied industries like box and barrel making. The Indian soap industry has so far made comparatively little use of fats and waste greases which form important materials for the soap industry abroad. There were in 1939, 26 soap factories employing on average 22,000 persons daily. The demand for soap is increasing and is bound to increase till further as the standard of our living improves. Our soap industry, therefore, seems to have quite a bright future. The

present estimate of production is 150,000 tons. Rationalization, research and improved methods are needed to put the industry on a stable basis and open out a vast field for future development.

30 The World War II and Indian Industry. During the first four months of the war there was excitement, speculation and uncertainty. Although stocks were substantially cleared, yet the prevalent psychological conditions were not such as to be conducive to any marked improvement in industrial activity. The resounding victories won by the German armies—collapse of France, invasion of Norway, etc.,—were not calculated to create favourable conditions for the development of economic activity. But the tide turned and by September, 1940, confidence was restored. The industrial activity then took a step forward. Prices began going up, being 32% higher than the pre-war level in March 1941, and they have been going up since then. The prices of manufactured articles in March 1943 were 40% above those of March, 1942. A rising tempo of industrial activity has been the necessary consequence. Production of coal reached a level never attained during the last 10 years and that of paper has been the highest since 1928-29. Cotton industry has been working double shift. During 1942-43, however, there was a marked decline in the production of cotton piecegoods, jute manufacturers, paper and coal mainly due to shortage of coal and labour troubles. In 1941 the value of war orders was Rs. 184 crores and in 1942 Rs. 256 crores. All industries, with the exception of jute and sugar, had a prosperous time.¹ The index of industrial profit rose by 9% between 1939 and 1942.

Through the impetus given by the war, Indian industry has broken new grounds and several new lines are being manufactured which were imported before and the production of existing lines has been appreciably augmented. Among these we may mention chemicals required for sterilization and clarification, bleaching powder in a Government plant recently installed, ammonium chloride manufactured in a factory in West Pakistan, soda, ash, caustic soda, liquid chlorine, hydrogen, medicinal drugs, dressings, disinfectants, wooden handles for tooth brushes, liquid glucose manufactured by a sugar factory on a large scale, several new types of glass manufacture, knife-clasps, bakelite, etc. Plans are also being prepared for the manufacture of aeroplanes, parachutes sea-going lighters, etc., manufacture of cigarettes, waterproof packing paper, khaki dyes from indigenous materials, buttons from cocoanut-shell and several types of rubber goods have also

1. The effect of war on each individual industry has already been examined and reference may be made to the relevant paragraph.

received a special fillip. Both the quality and quantity of machine tools have been improved. There has been improvement in the technique of the casting and the use of plastics. Tyre-making has increased.

During the war, India became the "Arsenal of the Orient". A mission under Sir Alexander Roger visited India in September, 1940, to study the problems relating to the co-ordination of the Indian industries to the war supply activities. In October, 1940, was held the Eastern Group Conference which set up the Eastern Group Supply Council—a continuous body to place orders on behalf of the countries represented on the Council. The activities of the Supply Council and those of the Supply Department of the Government of India have given a great impetus to the Indian industries. The Supply Department has been exploring the industrial possibilities of the country with very valuable results. A Board of Industrial and Scientific Research has been set up and it has succeeded in evolving several new processes and for commercial exploitation of these processes an Industrial Research Utilization Committee has been formed. All these activities have accelerated industrial development in the country.

No doubt Indian industries have considerably benefited from reduction in imports, high prices, continuous flow of war orders and increase in the home demand as the result of the war; yet it has also to be born in mind that the shortage of shipping creating difficulties in the import of machinery, mill stores and many other essential materials and the abnormally high prices at which they are imported impose severe handicaps on the Indian industry. There was also an acute shortage of coal in 1942-43 which compelled many factories to remain idle. But for these handicaps, the industrial progress in India would have been simply astounding. It is also worth noticing that whatever progress has been made, it is largely in industries producing consumption goods and war industries. The basic or "key" industries have hardly been touched. No spectacular or new industrial developments have taken place which are likely to be permanent. With the suspension of hostilities, practically pre-war industrial conditions may be restored and we may even lose some pre-war ground on account of keen competition from abroad when increased industrial capacity outside exerts its full effects. On the whole, however, Indian and Pakistani industrialists have a prosperous time.

CHAPTER XIV

SOME FACTORS OF INDUSTRIAL DEVELOPMENT

1. The Chief Factors : Industrial development in a country is governed by certain fundamental factors. Their presence or absence largely accounts for the fact whether the country is well-developed or ill-developed in matters industrial. Improvement in the efficiency of these factors is a sure way of securing industrial advance and their inefficiency is sure to spell stagnation.

Some of the chief factors on which the industrial development in a country depends are **Men, Money, Materials, Markets, Motive Power, Management, and Means of Communication and Transportation.**

Men : Man is the most important factor. It is his intelligence, resourcefulness, prudence and steadiness of character which makes or mars a country. A country is what its people make her. Man's inventiveness, enterprise and industry are called forth to bring about an economic uplift of the country. The character of industrial labour in India has an important bearing on the conditions of industrial development in the country. Indian labour is said to be desultory, inefficient and economically "dear" in spite of low wages. But India has got a huge manpower and it is capable of vast improvement, because its alleged inefficiency is due to several preventable causes. In view of the special importance of this factor, we propose to devote a separate chapter to its discussion.

Money : Money oils the wheels of industrial machine. Production without capital will be inadequate and inefficient. Lack of adequate finance is partly responsible for retarding industrial growth in the country. Stepping of foreign capital into the gap has created several complex problems both economic and political. But there are reasons for shyness of India's capital. Given favourable conditions, Indian capital has proved to be quite bold. The success of Government's loan operations shows that Indian capital can respond to the call under favourable conditions. India's hoarded wealth is said to be immense. If India's capital resources are properly mobilized and Indian money market properly organized, the needs of Indian industry will be adequately

met. A separate section is devoted below to the discussion of the problems of industrial finance.

Materials : We have already reviewed the extent of India's agricultural, forest, mineral and animal resources. Their vastness and variety will strike any casual student of natural wealth of India. They are almost inexhaustible. On this score Indian industries should have little to complain. But these resources, in many cases, have yet to be properly and adequately exploited for the benefit of Indian industries. It may safely be said that there is hardly any important raw material that India cannot produce. In this respect, therefore we are very happily placed.

Markets : The huge population of India with its different social strata should furnish almost an unlimited market for every variety of manufactured articles. But the poverty of the masses and the low standard of living impose a limit to this potentially wide market. The key to the development of Indian market lies in improving the standard of agriculture. Only the prosperity of the agricultural section, which constitutes three-quarters of our people, can add to the purchasing power of the masses and create or augment demand for industrial products.

Motive Power : We have already studied the various sources of power available in India. We have seen that India's coal resources, the chief source of power, are neither adequate nor properly distributed. The quality of Indian coal is poor. But this deficiency can be fully made up by the development of hydro-electric power of which she has yet hardly developed 3% of the available resources. If this energy is harnessed into the service of Indian industry, cheap and efficient power will be placed at the disposal of Indian industrialists.

Management : Much depends on the man at the top. A loose screw there will result in wastage of material, uneconomical handling of the machinery, misplacing labour and frittering away the resources. The management of Indian industry is in the hands of the managing agencies, a peculiar system of management prevalent in India. Apart from a few black sheep, the managing agents in India have furnished ample proof of their efficiency, sense of responsibility, adaptability and capacity to learn. They now command a varied experience. Managing Agency system is discussed below in a separate section.

Means of Communication and Transportation : India's total railway mileage of 41,000 at the close of the year 1940-41 and metalled road surface of 68,000 miles is ludicrously small as compared with the development in this direction in advanced

countries of the world. In this respect India is yet ill-equipped. Lack of adequate, cheap and efficient means of communication and transportation acts as a serious handicap in the way of Indian industries drawing their raw materials and serving their markets. The unsympathetic railway rates policy neutralized to some extent the benefit of the existing railway mileage. A planned system of transport is an important requisite for any scheme of economic development. It is hoped this problem will receive proper attention in the post-war years.

2. Small and Middle Size Industries : Finance is the life-blood of industry. Adequate finance is absolutely necessary to oil the wheels of industrial machine, to ensure its smooth working or to prevent its breakdown.

The problem of Industrial finance may be studied in connection with (a) the small-scale and middle-sized industries ; and (b) the large-scale or organised industries.

The small producer requires finance for the purchase of raw material, to meet the expenses of production and to bridge the gap between production and final disposal of the goods.

In the rural areas, capital is extremely unorganized and as a matter of fact much capital is not available. The village money-lender is the one oasis of thrift in the vast desert of extravagance. The small producer being poor and unable to offer good security, the funds of the money-lender do not flow towards him except at exorbitant rates. "Every advantage is taken of debtor's illiteracy and helplessness."¹ Further, in the rural areas, there is a greater predilection in favour of investment in land or in jewellery or the money is simply hoarded. The co-operative banks confine to current agricultural finance and can ill-afford to spare any money for local industrial enterprises. The local industries, therefore, practically starve for lack of funds or they have to pay an unconscionably high rate.

In the cities, capital is better mobilized. In almost every city, there is either a branch of the Imperial Bank or of some other joint stock bank. The position has considerably improved in the last two-three years, for a large number of banking concerns have been floated, of which Bharat Bank needs special mention. But the requirements of finance in the urban areas, both for the cottage worker and the middle-sized industries like flour mills, rice mills, printing presses, small match factories, hosiery, soap, sports factories, iron and brass factories, etc., are

1. Report of the Bombay Banking Enquiry Committee, 1931, p. 136.

greater, for their operations are on a larger scale. To afford financial help to the cottage worker, a number of middle-men, besides the ordinary *sahukar*, have appeared on the scene. The *mahajan* gives a cash loan; and if he is also a dealer in raw material, he supplies it on credit. The *mahajan* takes full advantage of the poverty and isolation of the artisan and charges a high price for this accommodation. According to the Punjab Banking Enquiry Committee, the Punjab weavers have to pay 12½% to 37%. These rates are certainly too high for the industries to bear. The middle-sized industries fare no better. Although they are started by men of substance, yet they too often need assistance and the indigenous bankers lending on personal security, charge high rates. The iron foundries of Ambala and Batala have to pay 8½ to 15%. The joint stock banks advance loans against block to the extent of 20 to 30% of the estimated value of property and machinery, and against stock to the extent of 70%. The Punjab Banking Enquiry Committee found Gujranwala hardware industry and Jullundur tanning industry in difficulties on account of lack of sufficient capital. The same is the experience in every other province. The terms on which the banks lend are regarded as inconvenient and irksome, and without technical knowledge they do not consider it safe to lend to such industries. The view of the Industrial Commission was, "there is no doubt that the small entrepreneur... is hampered seriously by the lack of banks and of finance at reasonable rates."¹ The position even now is not much improved.

In recent years, the industrial side of the co-operative movement has been receiving special attention especially since 1935 when the Government of India sanctioned an annual grant for the development of handloom industry. In Bombay in 1938-39, there were 42 weavers' societies with Rs. 2,14,930 as working capital. In Madras in 1937-38, 133 weavers, societies had Rs. 2,42 lakhs working capital, U.P., in 1939 had 386 non-agricultural societies with Rs. 58,34,398 as working capital. Bengal in 1938 had 321 weavers' societies with working capital of Rs. 93,545. The Punjab in 1938 had 339 weavers' societies with working capital of Rs. 6,37,269 and they advanced money to the extent of Rs. 2,75,386. The co-operative movement has immense possibilities. In Russia, since the Revolution, the co-operative movement has been playing an "important part in the industrial sphere."² But the movement in India is still in its infancy and it cannot yet meet adequately the financial needs of the small industrialist.

1. Report of the Industrial Commission, 1918, p. 178.

2. See Blanc—Co-operative Movement in Russia, 1924, p. 168.

Another source of financial assistance is the State. The State-aid-to-Industries Acts are in operation in all the provinces. But the experience of State loans has not been a happy one, for a large number of such loans became frozen and had to be written off. The Government of India lost about Rs. 15,000 out of Rs. 25,000 advanced to a soap factory. In Madras out of a total of Rs. 8 lakhs advanced to a paper mill, Rs. 4 lakhs had to be written off. There were similar instances in other provinces. A Government loan with its elaborate formalities gives unwelcome publicity, and industrialists, who are zealous of their credit, avoid the inquisitorial gaze of the Government officials, who, in their turn, are not competent to judge the industrial proposition and the credit-worthiness of a party. The Fifth Industries Conference held in 1933, which was attended by various provincial representatives, rightly came to the conclusion that these loans had not been successful in stimulating industrial development to any appreciable extent.¹ The scheme of direct State assistance, therefore, does not seem to hold out any promise.

Two interesting experiments have been recently made. Industrial Credit Syndicate, Ltd., was incorporated in Bengal in 1937, and Industrial Credit Corporation in U.P., both with an authorized capital of Rs. 50 lakhs each. Both have the active assistance of the Government. They have been established to render financial assistance to small industries. It is hoped that other provinces will follow suit.

5. Financial Requirements of Large-Scale Industry : The large-scale industry needs funds for block or capital expenditure, *i.e.*, for the purchase of land, erection of the factory building, for setting up machinery, etc. and in the case of a going concern for extensions and replacements. Besides this, funds are required for the purchase of materials, for stores, for other expenses incidental to production and marketing and for meeting day-to-day requirements of the industry. This is known as the working capital.

From the study of Indian Tariff Board reports, we can find estimates of these requirements in case of various industries. A cotton mill in Bombay with 1,000 looms and 40,000 spindles would require Rs. 46.12 lakhs and the amount of working capital would correspond to one-third of year's works expenditure. A 60,000 ton cement factory would cost Rs. 48 lakhs and six months' output is a reasonable measure of working capital. The estimate for an iron and steel concern of a productive capacity of 60,000

1. Bulletins of Indian Industries and Labour No. 50, p. 12.

tons of pig iron and 400,000 tons of finished steel has been put at Rs. 15 crores block and Rs. 3½ crores working capital. The estimate for a paper mill of 6,000 tons capacity is Rs. 49.19 lakhs and working capital corresponding to 8 months' output is required. For a sugar factory of 400 ton capacity Rs. 10 lakhs would be required for plant and Rs. 3.5 lakhs for building and working capital equivalent to one-third of the season's output. The initial capital outlay for the tea garden of a minimum size of 500 acres is estimated at Rs. 7½ lakhs. A match factory of the maximum capacity of 10,000 gross boxes per diem will need Rs. 9 lakhs for the plant and working capital equivalent to four months' output.

6. How much of these requirements should be met by the Industry itself: Dr. Jeidels, a foreign banking expert, is of the opinion that not only block but also normal working capital has to be furnished out of the firm's own initial capital.¹ But strict adherence to this view will prevent even many sound concerns from seeing the light of the day, for it is rare that an industrial concern in India has raised sufficient capital for both these purposes. In a country where capital is notoriously shy and nervous and where hoarding in one form or another is all but universal, it is idle to expect that a company will be able to raise sufficient funds to meet its requirements of fixed, floating and working capital. The proportion that share capital bears to the total capital requirements is 38 per cent. for Bombay, 25 per cent. at Ahmedabad and 13 per cent. at Sholapur.¹ The Central Banking Enquiry Committee held that the industrial concern having raised initial capital sufficient for block, may rely on commercial banks for the whole of the working capital and also temporarily for funds required for extensions.³ This will obviously place too much strain on the commercial banks. The sound principle seems to be that the concern should raise all the initial capital for block *plus* that amount of working capital which is permanently locked up, and for any working capital required over and above this, it may rely on the banks to supply it. But this sound principle has been honoured in India more in the breach than in the observance, with serious consequences to the investor, the industry and the promoters themselves. There are not a few cases when the industrial concerns found themselves in financial difficulties shortly after start. A paper mill at Rajah-

1. Dr. Jeidels—Memorandum on Industrial Finance.
Report of the Indian Central Banking Enquiry Committee, 1931, Vol. IV, p. 146.

2. Report of the Textile Labour Enquiry Committee, 1938, p. 51.

3. Ibid., Vol. I, pp. 275; 298-299.

mundry, in 1925, could not start operations because it had spent all its capital on plant and machinery. The Government had once to come to the rescue of the Tata Iron and Steel Company by giving a loan of Rs. 50 lakhs. The Indian Wire and Steel Products, Jamshedpur, failed to increase its output due to shortage of capital and the Government of Bihar and Orissa had to sanction, in 1924, a loan of Rs. 5 lakhs. The under-capitalization of the Indian industrial concerns is thus chronic and universal.

7. How Finance is Actually Obtained : Indian industries raise the bulk of their share capital in the form of ordinary shares and the tendency in recent years has been to issue them in lower denominations. Debentures are not popular with the Indian investors and the companies, too, hesitate to issue them for fear of losing credit. The various causes that limit the market for debentures in India are: heavy legal and stamp charges and underwriting commission, heavy transfer fee, limited return, no prospect of capital appreciation, frequent failures of industrial investments, practice of insurance companies to invest in the gilt-edge, etc. The companies cannot raise, therefore, enough capital for their normal requirements.

The inadequacy of the amounts raised through shares and debenture capital for entire block and normal working capital, compel the industrial concerns to seek the aid of other financing agencies. But the perusal of the Banking Enquiry Committee Reports and the evidence tendered before them gives one the impression that they do not receive any sympathetic treatment from the money market. As regards initial capital the facilities are inadequate. The public prefer to invest in Government Securities and Municipal or Trust loans.¹ Thus the paid-up capital often does not cover even the block. This makes the finances of the company precarious and throws them at the mercy of managing agents and other financial houses. A combined balance-sheet of 67 cotton mills submitted to the Tariff Board in 1936 showed that, in 1934, the managing agents in Bombay had to find Rs. 10 crores, and in Ahmedabad Rs. 360 lakhs, for the balance of fixed capital expenditure and for working capital.² The funds supplied by the managing agents constitute 6 per cent. in Bombay, 31 per cent. in Ahmedabad and 15 per cent. in Sholapur and at Ahmedabad the managing agents also hold 25 to 50 per cent. of the shares, and their share in the deposits is nearly 20 per cent.

1. Report of the Central Banking Enquiry Committee (Majority Report). Vol. I, Part I, p. 299.

2. Vide Report, p. 57.

This brings us to another source of funds, viz., deposits from the public. This system is specially prevalent at Ahmedabad. But deposits have been described as 'fair-weather friend' and are likely to desert at the slightest shock of adversity. Besides, it is unsound to finance schemes of capital expenditure out of these short-term deposits.

Short-term loans on the cash credit system can also be obtained from the commercial banks on the security of stock and in some cases on the additional guarantee of managing agents. But the cash credit system fails during depression for either the amounts are recalled, which leads to forced sales accentuating the depression, or the mill-owners are asked to increase the security which is not always easy.

Apart from these main sources tapped by the cotton mills, the various other industries have evolved their own systems of finance. The tea companies charge a refundable admission fee of Rs. 20—25 per share not bearing any interest and the proceeds are spent on initial expenditure. Some of the tea gardens have to borrow from indigenous bankers and loan offices at a very high rate. The well-established gardens can get accommodation from some firms of brokers who act as intermediaries between them and the Imperial Bank and guarantee the loan, the commission charged being 1 to 2½ per cent. The Tata Iron & Steel Co. has cash credit arrangements with the Imperial Bank and also raises large amounts in the form of one year's deposits. The Indian coal firms have to borrow from indigenous bankers even at 24 to 30 per cent. The sugar industry receives deposits from selling agents and from the public. The jute industry secures loans from the banks on the security of stocks. These are the different ways in which the various industries obtain the necessary finances.

8. Indian Banks and Industry: Conflicting opinions were expressed before Central Banking Enquiry Committee about the financial assistance given by our banks to industry. But on the whole it appears that our banks have been working on too rigid and orthodox lines to be of much use to the industry. Their unwillingness to advance money on personal security or on the security of block, even though unencumbered, and their insistence on full backing of tangible and easily realizable security detracts from their utility to the industry. Hypothecation of stocks on which they generally insist, involving as it does a visible control by the bank, damages the credit of the party and deters them from availing even of the very limited facilities

provided by the banks. 'Industry in India is face to face with banks run on ideal lines'.¹ As a matter of fact there is no member of our money market whose avowed aim is to help industry. The Imperial Bank has its hands full with ordinary commercial banking business and there are not many other joint stock banks which by experience and financial strength are competent to take up the task of financing the industries. The foreign exchange banks are busy in their own sphere and do not feel interested in financing Indian industries. The indigenous banks find the financing of trade and ordinary money-lending too profitable to turn to industries. Besides, their resources are too meagre to be of any substantial aid to industries. The co-operative banks are meant to help the agriculturists. Thus 'no banking agency cultivates industrial relations'.² The banks generally invest their funds either in Government Securities and give advances against merchandise actually deposited in their godowns or if kept with the customer, some other legal formalities are gone through. None of these practices is helpful to industry which is thus starved financially. As the Marwari Chamber of Commerce pointed out to the Central Banking Enquiry Committee, 'the sum total of the assistance given by the joint-stock banks is an almost negligible quantity'.³ Mr. Manu Subedar, in the minority report, criticized in scathing terms the treatment accorded to industry by the banks. He observed, 'the banks have done a disservice to themselves and to industry through an exaggerated adherence to the principle of short-term investment'.⁴ No doubt, the banks have their own difficulties. They have to maintain a condition of maximum liquidity to meet the demands of their depositors. They also lack the necessary knowledge and equipment to determine the trustworthiness of an industrial concern. The industrialists themselves are unwilling to disclose fully and unreservedly their true state of affairs. Flootation of fraudulent concerns and their failure, periodic recurrence of depression and precarious position of Indian industries owing to the uncertainties of the fiscal policy also add to their difficulties. But when all is said the fact remains that the banks have shown lack of sympathy and an attitude of unconcern to the development of our industries. Our banks must give up this 'touch-me-not' attitude so far as industries are concerned.

1. Indian Central Banking Enquiry Committee (Minority Report), 1931, Vol. I, Part II, p. 333.

2. Dr. Jeidels—Memorandum on Industrial Finance Report of the Indian Central Banking Enquiry Committee, 1931, Vol. IV, p. 148.

3. Ibid., Vol. II, p. 560.

4. Vide Report, p. 327.

9 Industrial Finance in some other Countries : Banks in Germany have played an important role in the development of industries. Special banking institutions like Schoffhausen, Scher Bank, Verein were set up to help industry. Many leading German banks known as the 'D' banks have come to acquire vast industrial connections. Having a large share capital of long-term deposits and equipped with wide range of technical knowledge, the German banks are in the best position to help industry. They initiate industrial enterprises and find capital for them either by subscribing themselves, hoping to unload later, or by underwriting the shares and issuing them to the investing public. They nominate their own directors on the boards of companies they have helped. To use Dr. Jeidei's words: 'The banks attend an industrial undertaking from its birth to its death.'¹ But they merely act as intermediaries between the industries and the investors, and have no intention of taking up the shares permanently. In recent years the German banks have been approximating more and more to the English model without, however, changing their sympathetic attitude towards industry. Sympathetic attitude towards industry is the real element in German banking policy. Sometimes the industrial firms in Germany combine to form consortia and borrow on their collective security.² The banks in other countries of the European Continent follow the same policy. The 'Big Five' in Belgium, Banques de Credit Mobilier in France, and Societie Financiera Italiana and Banco Nazionale de Credits in Italy have contributed to the prosperity of industry in their respective countries.

In Japan, like India, there was a dearth of capital and traditional preference for investment in land. The Japanese Government had to make special efforts to mobilize capital and turn it into industrial channels. The Industrial Bank of Japan was established in 1902. With the approval of the Minister of Finance it can issue, underwrite or even subscribe to share capital of industrial concerns. It has a committee of experts who periodically visit factories and keep it fully informed about the condition of industry. It has shown special solicitude for small industrialists by helping men of ability and excellent business record without any tangible security. A Central Chest for Industrial Associations was set up in 1923 with 50 per cent. capital subscribed by the Government. Even ordinary joint stock banks give long-term advances to industrial

1. Whale, P.B.—Joint Stock Banking in Germany, 1930, p. 52.

2. Guilleband—The Economic Recovery of Germany, 1933-38, p. 120.

enterprises and several concerns were rescued by them during industrial crisis of 1930. The Industrial Investigation Association was recently formed by banks and trust companies to facilitate rationalization of Japanese industry. For the financing of new enterprises Bank deposits account for 63 per cent., Post Offices account for 13 per cent., Insurance Cos. 8 per cent., Trust Cos. 7 per cent. and Co-operative Societies 5 per cent.¹ Almost every great Japanese firm has a bank established in connection with it.² The famous banking houses of Mitsubishi, Mitsui Sumitomo, and Yasudas have given valuable financial assistance to industries. Our insurance companies invest their spare funds in Government securities but the Japanese insurance companies use their funds in long-term finance to industry. The Japanese Government has always taken a leading part in the matter. In 1937, Capital Adjustment Law was passed to regulate the flow of funds into industry and savings are now mobilized and invested according to the discretion of the Government and industrial experts.

The banks in America, too, have actively interested themselves in industrial floatations and have formed subsidiary securities companies for the purpose. 'In building up...most of the great American corporations, some house or bank has played a leading role and relation usually remained close and continuous one.'³ The American banks are no longer content with furnishing short-term credit.⁴ Under the Federal Reserve Bank Act 1934, the Federal Reserve Banks are authorized to make direct working capital advances and to buy or discount industrial bonds maturing within five years. A method of group finance has been developed in America by which larger banks 'pump' credit into the country through the smaller banks'.

The English banks, too, in recent years have departed from their traditional policy of purely commercial banking and of aloofness from industry. The Bank of England came to the help of steel industry and through its support to the Lancashire Cotton Corporation contributed to the rationalization of textile industries. A subsidiary company, the Securities Management Trust Ltd., was formed in 1929 to help in the work of industrial reorganization. In 1930 was established Bankers' Industrial Development Co., in which every bank and financial house of

1. Mitsubishi Economic Research Bureau—Japanese Trade and Industry 1936, p. 82.

2. Allen—Modern Japan and its Problems, p. 174.

3. Committee on Finance and Industry, 1931, Report, p. 164.

4. Vide Memorandum on Commercial Banks, 1913-1929, League of Nations, p. 329, and also Memorandum, etc., 1925-33, p. 238.

first rate importance took up shares. It represents co-operation among banks to assist industry. The company took a leading part in the financing of Lancashire Steel Trust.¹ In 1934 the Bank of England lent its support in the formation of Credit for Industry Ltd., by the United Dominion Trust and in the same year the Charter House Investment Trust brought into existence Charter House Industrial Development Co., Leadenhall Securities Corporation was formed in 1935. Large merchant banks like Hambros Bank, Baring Bros. & Co., and Rothschild and Sons also engage in industrial finance. The Industrial Section Trust and Standard Industrial Trust take prominent part in the finance of new enterprises. For affording financial assistance to industries in depressed areas, three funds were recently created—£2 million Nuffield Trust, Special Areas Reconstruction Association Ltd., and the Treasury Fund. Together up to September, 1938, they had found £57 millions of capital for 151 undertakings.² Now the English banks are as much interested in their industry as German banks are in theirs.

The insurance companies in England invest $\frac{1}{3}$ or $\frac{1}{4}$ of their funds in Securities of industrial enterprises.

An Industrial Finance Department has been created in the Australian Commonwealth Bank with the object of providing long-term finance to industries.

10. Review of Industrial Finance in India and Suggestions for Improvement. The brief survey of Industrial finance abroad, given above, shows that even in countries in an advanced stage of industrialization, special institutions are being set up to help the industries. But our industries are receiving little assistance from our banks and we have none of the special institutions like issue houses of England or other institutions set up recently. In the case of our industries, either adequate financial assistance is not forthcoming or it is given almost at prohibitive price.

But this is not because sufficient capital does not exist in India. Although India is admittedly poor, yet the requirements of her industries, too, in the aggregate are not very large. The paid-up capital of 10,368 joint stock companies in British India in 1939-40 was Rs. 2,88,49,60,839 and of 1,004 companies in Indian States Rs. 15,17,89,377. But the Scheduled Banks cash and balances with the Reserve Bank in 1935-36 (for nine months only) amounted to 37,79,00,000 the total amount of Postal Cash Certificates outstanding in 1934-35 was Rs. 65,96,00,000 and

1. Basu—Industrial Finance, 1938, p. 54.

2. P. E. P. Report on the Location of Industry in Great Britain, 1939, p. 9.

Postal Savings Bank deposits Rs. 58,30,00,000. The number of banking offices has increased from 723, in December, 1935 to 1290 in March 1940. There is therefore no doubt about the adequacy of capital resources in India. "It cannot be said that the number of banking agencies and the amount available for the granting of credits are insufficient."¹ Nor can the Indian capital be now accused of shyness. This is proved by the growth of rupee debt from Rs. 146 crores in 1913-14 to Rs. 742 crores in 1940-41 and the increase in the paid-up capital of joint stock companies from Rs. 80 crores in 1913-14 to nearly Rs. 303 crores in 1939-40. Further, one notices that as soon as an opening for profitable investment occurs, it is at once flooded with the flow of capital till it has become unremunerative. The successful floatations of recent Government loans testifies to the same effect. The difficulty in India, thus, does not lie in the paucity of funds nor in the shyness of capital but in the uncertainty of industrial policy or unsoundness of industrial ventures.

The fact is that no expert and reliable guidance is available to the average Indian investor who himself can hardly be expected to judge the profitableness and the safety of an investment. The yearly recurrence of so many company failures frightens him. Nineteen hundred and sixty-one companies stopped business between 1931-32 and 1934-35. As the Madras Banking Enquiry Committee remarks: "It is more a lack of confidence in individual promoters of companies than lack of resources that prevents enterprises from being able to procure adequate capital by public subscription" (*vide* Report, p. 133). Or, in the words of the Industrial Commission, "The difficulty in raising capital for industries is mainly the measure, even in India, not of the insufficiency or inaccessibility of money but of the opinion which its possessors hold of the industrial propositions put before them."

In order to make up the deficiencies of industrial finance in India, it may be suggested that the big commercial banks should develop a sympathetic attitude towards industries and should maintain a close and continuous association with them so that they may be able to give timely and adequate aid to them, consistent of course with their own safety. In the words of Dr. Jeidels, 'capital market in India seems to be large enough to give room to a certain activity of banks in the field of industrial financing.'² But they should avoid being entangled too much. 'A

1. Report of the Foreign Banking Experts: Indian Central Banking Enquiry Committee (Majority) Report, 1931, p. 605.

2. *Vide* Report, p. 179.

banker must never forget that he cannot and must not be an industrialist¹.

Sir C. D. Deshmukh, Governor of the Reserve Bank thinks that the commercial banks, in their present stage of development cannot take any substantial interest in long-term finance. But these banks can at least help in the formation of special institutions, as in England, to act as intermediaries between the industry and the investor on the one hand and as financial advisers to existing industrial concerns on the other. They should arrange for underwriting the issues and provide temporary finance, and even long-term credit, in anticipation of this issue. They should assist in the reorganization and rationalization of the existing industries and in the establishment of new enterprises.

We should also have industrial banks with the larger proportion of share capital and receiving long-term deposits to specialize in the business of industrial finance. The Government might help by taking up a part of the share capital or by guaranteeing a minimum dividend and the advances given by the bank. The unfortunate experience of the Tata Industrial Bank seems to be haunting still the mind of some entrepreneurs. There is, however, no reason to fear if the institution is managed prudently.

To help the small investor, who cannot make a discriminating choice between the different securities offered to him, we should have investment trusts, which hold or deal in shares so that they can provide the small investor an opportunity of buying 'blended packets' of a number of securities thus diversifying his investment and spreading the risk.

Special banking institutions may be started to mobilize the small and scattered amounts of capital. They should cater for the needs of small depositor by offering him better terms and facilities.

It is also necessary to develop the bill market in India by the liberal provision of discount and rediscount facilities so that the business men may be able to escape the formalities and inconveniences inherent in the cash credit system.

In the U.S. and Japan insurance companies play an important part in providing long-term finance. But in India the insurance cos. are required by statute to invest 55% of their liabilities in government or government approved securities. This is a great handicap and must be removed.

1. Dr. Goldschmidt—quoted by the Committee on Finance and Industry, 1931. Report, p. 168.

It is idle to expect a rapid and satisfactory industrial development without a properly organized system of industrial finance. Our industries often languish for want of finance while vast amounts of capital lie dormant. Those that have been mobilized are not available to them except at an exorbitant price. If the measures suggested above are adopted, it may be hoped that a big stumbling-block will be removed from the path of industrial development in India.

11. The Problem of Foreign Capital : One aspect of industrial development in India which needs special attention is the dominance of foreign capital. It is difficult to form an accurate estimate of the extent of foreign capital in India.¹ We can have some idea from the paid-up capital of joint-stock companies registered abroad but working in India which in 1938-39 was £745 million. But it is possible that some of these companies may be doing business in India on a very small scale and that some of the capital may be held by Indians. Similarly paid-up capital of some joint stock companies registered in India in rupee capital is held by non-Indians, e.g., Buckingham and Carnatic Mills, Cawnpore, and Dhariwal Woollen Mills. Therefore, the paid-up capital of companies registered elsewhere is no index of the amount of foreign capital invested in India, also because it is apart from the debenture capital which amounts to more than £100 million. Further, there are numerous unregistered private foreign firms working in India. But it is enough for our purpose to remember that the amount of foreign capital in India is much larger than the Indian capital. Although, apart from cotton-mill industry which has been its peculiar domain, the Indian capital in recent years has become much bolder and has made considerable headway in cement, sugar, insurance, banking, paper companies and even in jute and tea companies, yet it requires no statistical proof to show that leading concerns in almost all industrial lines are under foreign enterprise and are run with foreign capital.

12. Advantages of Foreign Capital : Foreign capital confers considerable benefit on the country making use of it. It may even be indispensable for accelerating economic development of a country when there is dearth of indigenous capital. All the Dominions, U.S.A. and Japan borrowed capital from abroad for the exploitation of their natural resources. Foreign capital undoubtedly adds to national wealth of the country. Even if profits go out, the wages constitute an important gain. The use of foreign

1. It is said to be anything between £800 and £1,200 million (B. P. Adarkar—Fiscal and Commercial Policy in Industrial Problems of India, edited by P. C. Jain, p. 169.)

capital results in the creation of assets which may more than cover the payment of capital and interest. The railways and canals provided with foreign capital will be almost a perennial source of national income when foreign capital has been repaid. Foreign capital, therefore, can be an important means of bringing about economic prosperity.

The foreign capitalist generally bears the losses in the pioneering stage and this is a gain to the country. Losses in the early stages are inevitable. Later, the indigenous capital can take advantage of the established lines and go ahead. We have seen how the early attempts in glass and iron and steel industries failed with losses to the foreign entrepreneurs.

Still another advantage is the technical knowledge brought into the country. The foreign capitalist sets up an efficient organization and introduces a new technique. If this is gradually imparted and passed on to the entrepreneurs in the country, the gain is undoubtedly great. But it is a big 'IF'. If the foreign capitalist sedulously guards the business secrets, no material gain results to the country.

13. Abuses of Foreign Capital : But the use of foreign capital is generally associated with certain evils. The greatest evil is of the political character. It is said that "Flag follows the Trade". A country using foreign capital soon passes under foreign domination and several political complications are created. Egypt and China have suffered from this domination. In India also vested interests had been created. They were slow to identify themselves with this country in and were at once alarmed when there was a move to grant any political power to India. The foreign capitalist in India clamoured for, and secured, strongest safeguards in the new Constitution, and he has rendered himself obnoxious to the Indian politicians by his persistent anti-Indian attitude.

Another drawback is that the natural resources of the country may be exploited for the benefit of a foreign country and to the everlasting detriment of the country concerned. In such cases, some would prefer to wait till the indigenous enterprises and capital are forthcoming and not develop the resources of the country at all till then.

Foreign capital with foreign control is especially dangerous in the case of 'key' industries and industries connected with national defence. The independence of the country is seriously undermined in these circumstances. It is too high a price for economic development.

It is also seen that higher and important positions in foreign concerns are reserved for their own nationals and Indians have to be merely content to be "hewers of wood and drawers of water". No apprentices are trained, and technique and processes are zealously kept a secret. In such a case the country derives little benefit from the use of foreign capital and suffers from a galling sense of inferiority. This attitude of the foreign concerns deeply wounds the self-respect of Indians.

The trouble is that alien concerns remain for ever alien. They take the profits and it represents a constant economic drain on the country which is impoverished instead of getting richer. This is a positive disadvantage. It takes away all inducement, whatsoever, to import foreign capital.

But it is well to remember that these objections are against foreign control and not foreign capital. Foreign capital without foreign management and foreign control may be quite welcome and may be conducive to the economic well-being of the country. If, therefore, foreign capital is used under proper safeguards, there may be no harm and much good may result instead.

14. Restrictions on Foreign Capital : In order to derive the maximum benefit from the use of foreign capital and reduce its disadvantage to the minimum, some restrictions on foreign capital seem to be called for. It has been proposed that the foreign concerns should be registered in India in rupee capital so that Indian investors may get an opportunity of acquiring a share in the capital. Further, that a portion of the share capital should be reserved for Indians and that a certain number of seats on the board of directors should be reserved for Indians. It is also suggested that these concerns should undertake to provide ample opportunities for the training of Indian apprentices. No doubt there are practical difficulties in actually carrying out these suggestions. The majority of the Fiscal Commission and External Capital Committee did not believe in their efficacy. But it is worth while to give a trial. They also were of the opinion that the restrictions should be imposed only when certain definite concessions have been granted. But as the minority report pointed out, the system of protection is itself a big concession. So many foreign concerns under the guise of "India Ltd." have been formed since the adoption of the policy of protection, that the matter has assumed a special importance. It is necessary to provide against the advantages of protection being neutralized to the country. Only genuine native.

concerns should benefit from the sacrifice that the consumer has to make under the system of protection.

15. Foreign Capital Under the Act of 1935 : The Act of 1935 does not confer complete fiscal autonomy on the Indian Federal Government to regulate tariffs in order to encourage Indian trade and industry. No restriction is to be imposed on any British subject domiciled in the United Kingdom in carry out any occupation, trade or business in India. Any concession, e.g., grants, bounties, subsidies, etc, exemption from taxation or preferential treatment accorded to Indian companies will be automatically enjoyed by companies incorporated in the United Kingdom, provided Indian companies are eligible to similar concessions in the United Kingdom. Ships registered in the United Kingdom cannot be subjected to any discriminatory treatment. It is one of the special responsibilities of the Governor-General and the Governors to see, that no discriminatory legislation is passed adversely affecting foreign concerns working in India. Thus the Indian Government will not be able to take any step to further purely Indian national interests by exclusively aiding Indian trade and industry. It will be difficult to protect the Indian industry against the competition of powerful British industrial concerns. The principle of reciprocity, according to which we have to give concessions if similar concessions are given to our concerns in the United Kingdom, has not much value, because few Indian concerns have the enterprise and resources to work there and compete with British industry. Unless the foreign concerns now working in India completely identify themselves with Indian national interests and aspirations, it will be necessary to impose certain restrictions on them from the purely economic point of view so that Indian industry may be assured of a fair and equal competition. But a rigid and literal interpretation of the new constitution will not make it easy to adopt such measures. Capital resources of India are now ample to finance all sound schemes of industrial development and really there is no need for foreign capital to come in. When it comes in, it comes uninvited and under protest, e.g., Swedish Match Combine.

16. The Managing Agency System : A characteristic feature of the management of Indian industries is the prevalence, almost universal, of the managing agency system. The managing agency is generally a partnership and sometimes a joint stock concern formed for floating a concern and to take over its management. It is a curious appendage to the joint-stock organization in India so as fundamentally to alter its character and working.

The *raison d'être* of the system lies in the peculiar economic conditions obtaining in India especially with regard to the availability of managerial talent and financial facilities. The shyness of Indian capital and consequent inadequacy of the amounts raised from the investing public, the late development of joint-stock banking, the absence of special financial institutions like the issuing houses, the lack of competent directorate and the practices of commercial banks relating to advances, are some of the causes that have conspired to throw industrial enterprises in India into the arms of the managing agents.

Besides purchasing materials and machinery, selling finished goods and arranging for insurance of plant, buildings and stock-in-trade on behalf of the concerns they manage, the managing agents perform three principal functions *viz.*, (1) pioneering; (2) running the routine machinery of the concern; and (3) providing finance. The managing agents do the preliminary prospecting to bring the concern into existence and place it on its legs and they carry on day-to-day business. Their financial interest in the concern is quite considerable. They are the principal shareholders and besides lending substantial amounts to the company themselves, they arrange for finance from the banks where their personal guarantee is almost invariably necessary. It is also their reputation and standing which induce some moneyed people to place their money with the mill as a deposit. Of the total loans secured and unsecured of the Bombay cotton mills amounting to Rs. 98,151,000 the advances by the managing agents amounted to Rs. 74,618,000 or nearly 46 per cent.¹ At Ahmedabad they hold 25 to 50 per cent. of the shares and their share in the deposits is 20 per cent.² The managing agents are, in short, promoters, financiers, managers, purchasers, and also agents, all rolled in one.

Their remuneration takes the form of a fixed monthly allowance intended to cover the expenses of clerical and secretarial establishment plus a fixed minimum commission and a percentage on profits besides. A commission on profits brings about a closer identity between the interests of the shareholders and those of the managing agents.

17. Criticism of the Managing Agency System: The managing agency system has been subjected to a close examination from time to time especially at the time of passing of the

1. Report of the Textile Labour Enquiry Committee, 1938, p. 53.

2. Report of 'Ahmedabad Millowners' Association, 1935, p. 138.

Indian Companies (Amendment) Act in 1936.¹

Among the several evils attributed to the system may be mentioned the subordination of the interest of the shareholders to those of the managing agents, opportunities for fraud and exploitation and the clash between the interests of the various firms under the same managing agency. The system has hindered the growth of independent and capable directorate. The directors are mere figure-heads and puppets in the hands of the managing agents. Out of 175 directors of Bombay cotton mills in 1925, 95 were agency directors and only 11 had received any technical training.¹ The managing agents decide and directors register those decisions. Mr. J. A. Wadia, a director of 13 cotton mills, stated before the Tariff Board in 1927, that if the directors took active part, they had to go. The development of sound relations between the industry and the banking system has also been hindered, for the banks lend on the guarantee of the managing agents and not on the intrinsic strength of the concern. Another count against the system is that the agency firms have too many concerns under them. In the words of Bihar and Orissa Banking Enquiry Committee, 'they have got too many irons in the vast and uproarious fire of their activities, their outlook is too wide and the centre of their operations too far removed and financial scale too large.' Andrew Yule & Co., Calcutta, manage 54 concerns. Two firms of managing agents in Bombay controlled in 1927, 23 out of 85 mills! In the hands of unscrupulous agents, the system has led to gross abuses like receiving secret and illicit commissions, embezzlement, deliberately bolstering up the share values and then unloading at the top level compelling the market 'to hold the baby', callous disregard of the interests of the company and hundred and one ways of exploiting the ignorant and the unwary investor. "They speculated in the shares of the company, losing contracts were openly passed on to the mills." Cotton was purchased by agents whose honesty was more than doubtful, coal purchased was defective in weight and quality and cotton was manufactured by machinery that was loaded with surreptitious commission. The factory pay-sheet was charged with useless or fictitious employees. Every canon of honest trading and manufacturing seemed to have

1. For detailed discussion reference may be made to Reports of the Indian Industrial Commission, 1918, pp. 12-13, Indian Cotton Textile Tariff Board, 1927, Vol. I, pp. 85-92, 152, Vol. II, Evidence of Bombay, Baroda and Ahmedabad Millowners' Association, Vol. IV, Indian Central Banking Enquiry Committee (Majority) Report, pp. 275-250, and (Minority) Report, pp. 330-232, and Report of Indian Tariff Board on Cotton Industry, 1932, Chapter IV.

2. Rutchagar—Bombay Industries : Cotton Mills, 1927, p. 253.

turned upside down and the whole, when considered together, gave one the impression that the industry existed for no other purpose than to support a gigantic system of swindling¹. The Indian Textile Journal of November, 1899, also wrote about the "rascality and rank dishonesty with which large sections of our mill industry are saturated." This is no doubt a very strong language and a bit exaggerated, yet the managing agency systems cannot be exonerated of some of the charges mentioned above.

But there are also certain advantages which can be claimed for the managing agency system. The good managing agents, who have zealously guarded their reputation for integrity and fair dealings and whose competence to manage the concern is unquestioned, have made this system yield the best of results. In particular, they have made the advantages of integration or horizontal combination available to the various concerns under them and various economies, internal and external, have been realized, because one agency sells goods and buys materials, machinery and mill-stores on behalf of a number of concerns and one office manages them. Financial co-operation among various concerns has been rendered possible, for the surplus funds of one concern are lent out to another which may be in need. The managing agency system combines the advantages of a partnership with those of the joint-stock organization. The keen self-interest, initiative, virility, resourcefulness and adaptability of the partnership are harnessed into the service of a joint-stock company. The apparent stiffness of the agreements, in actual practice, is considerably toned down. Some managing agents voluntarily relinquish their commission in hard times. By their timely financial aid they have in many cases prevented the ruin of industrial concerns and brought them to a profitable stage. The Paper Pulp Co. showed a debit balance for nine years and the managing agents advanced sums varying from Rs. 15 to Rs. 25 lakhs. In 1920-21, seven tea companies were pulled out of the slump by advances from managing agents amounting to Rs. 7 lakhs. An advance of Rs. 17 lakhs saved from bankruptcy a company formed for the production of aeroplane spirit in 1918. Although, as Mr. Manu Subedar remarks, 'whereas the weaker and the less desirable side is inherent in the system,' yet it has also large potentialities for good.

In conclusion, we may agree with the view of the Industrial Commission that the system has a far greater list of successes to its credit than can be shown by ordinary company management

1. Ibid., pp. 50-51.

under individual managing directors. All the same it must be said that the system is very expensive and the Indian industry can ill-afford to bear its cost. Not many managing agents can claim princely salaries as the minimum amount of commission guaranteed to them. As the concern becomes well-established and the period of risk is over, the remuneration of the managing agents may well be scaled down. The system has come to stay. No legislation can wipe it off. The only remedy against its abuses is to organize public opinion and give wide publicity to the nefarious activities of bad agents. It may be suggested that the managing agents should introduce internal reforms, apply the principles of scientific management to office organization, acquire technical knowledge and administrative ability, cultivate a sense of responsibility, public spirit and scrupulous regard for the concern they manage and should discard get-rich-quick methods. They should explore new avenues of industrial development and pioneer new concerns. Those who are conservative and are reluctant to launch new ventures should have really no place.

18. The Managing Agents and the Indian Companies (Amendment) Act, 1936: This Act has been described as the *Magna Carta* of the Indian shareholders. Under the Act the managing agents' terms and remuneration have to be sanctioned in the general meeting. Their term is now fixed for 20 years, but can be renewed and they can be removed earlier if convicted of certain offences or if adjudged insolvent. The office cannot be changed without shareholders' permission. Their remuneration is fixed at a percentage of net profits subject to a fixed minimum, though the terms can be varied by the shareholders. Funds of one company cannot be utilized in another and the managing agents cannot carry on any competitive business on their own account. Loans to them are forbidden except on current account. The number of their nominees on the board of directors is fixed at one-third. This is undoubtedly a great improvement. But the managing agents can still act on behalf of several similar concerns and their interest in all may not coincide. As purchasers of the goods of and sellers to another company, they can still make illicit gains. The Act makes their position secure for 20 years if they like to stay, but does not safeguard the interest of the shareholders if they do not. The fact is that no law can safeguard the interest of individuals when they themselves are not vigilant enough. The shareholders are ignorant, indifferent and lack corporate spirit and that vigilance which alone can assure success of a democratic institution like the joint-stock organization.

19 Saving and Investment: *How hoarding can be done away with:*—The amount of capital in any country depends on the power to save and the will to save. The power to save is very poor in India. The majority of zamindars till uneconomic holdings and find it hard to meet both ends, leave aside saving and investing. The few who are lucky enough to be outside the pale of a deficit economy are improvident and save little for the rainy day. Whatever little is, however, saved in the villages is converted into silver and gold ornaments, for, either there are no banks in the vicinity to attract savings or the villager has not enough confidence to trust his savings to a bank.

Considering that India's teeming millions run up to 1/5 of the population of the world, and that during the last four centuries and a half India has not absorbed more than 14 per cent. of the total output of gold¹, the charge that India is a sink for precious metals falls to the ground. India absorbs precious metals for art purposes, so do Europe and America, who consumed no less than 30 per cent. of the total gold output during the time that India absorbed a bare 14 per cent. according to the above-quoted authority.

Hoarding was inevitable when life and property were not safe in India. Social conditions (like the dowry system) also encouraged it. Circumstances are, however, changing and things in this direction have considerably improved. These are no arguments for complaisance. Efforts should be made to provide opportunities for saving and investment and to discourage hoarding. The following steps might be helpful in this direction.

(1) The Central Banking Enquiry Committee was convinced that there was not much hoarding in India, but at the same time stressed the need for extension of deposit banking. Branches should be opened in places where no banking facilities existed rather than in big towns where a large number of banks were already represented. The man in the village has to be reached and his savings collected.

(2) Post-offices should supply enhanced facilities to the small man. A more tempting rate of interest should be offered to tempt him to deposit his meagre savings.² If the facility of withdrawing money by cheques written in Indian languages could be provided, it would also provide a fine incentive for literacy.

1. Mr. Joseph Kitchen in evidence before the Royal Commission on Indian Currency and Finance in 1926.

2. This has been done recently, the rate being raised from 1½ per cent to 1¾ per cent.

The return on Postal Certificates, Defence Bonds and National Savings Certificates was increased by Government in the year 1943. This is a step in the right direction as it would promote investment among people who command moderate means.

(3) A more active and intensive propaganda should be carried on to increase the number of women's co-operative societies in the villages. This would tap a source but is little exploited so far. Women are naturally thrifty in this country. The inculcation of the habit of investment among them would more surely work towards discouraging hoarding in India than anything else. Joint-stock banks should open special departments for women which should be in the charge of lady-assistants. Such a step would promote business habits among women and induce them to invest their money in the banks rather than ornaments.

(4) Education is the soundest remedy against all traditional, uneconomic habits. The present system of education needs a thorough overhaul in India. The recent scheme by Mr. Sargent, the Educational Commissioner with the Government of India, is very comprehensive and, in a way, idealistic. Even if it is adopted piecemeal it would revolutionize the system of education in the country and ultimately encourage banking habits among the masses. A knowledge of elementary economics imparted in the Indian languages at the matriculation stage would also help matters. Lectures arranged under the auspices of Bankers' Institutes and Chambers of Commerce in different parts of the country and pamphlets would also be of use.

CHAPTER XV

INDUSTRIAL LABOUR

1. Growing Importance of Industrial Labour in India : The rise of the wage-earning class in India has been very slow. Pre-dominance of agriculture and attachment to land, the existence of joint-family system and the absence of successful industrial career are some of the causes which prevented the rise of the industrial labour in India. Demand for Indian labour for colonies and for plantation raised some labour problems. But after the World War I there was a general awakening and Indian labour also became conscious of its strength and rights. The influence of the International Labour Organization also tended in the same direction. The appointment of the Royal Commission on Labour and the advent of Congress Ministries with a definite bias for labour welfare deepened general interest in labour in recent years. The Labour Commission gave impetus to labour legislation and brought the labour problems to the forefront. Growing importance of labour is shown by the fact that the representatives of various industries met in a conference in 1940, to discuss what attitude to adopt towards the steps that the Central and Provincial Governments contemplated to take to ameliorate labour conditions. Industrial Labour in India and Pakistan is now a force to be reckoned with.

2. Sources of Labour Supply and Methods of Recruitment : There was a time when there was a chronic shortage of labour. In 1905 on the complaints made by the employers of U.P. and Bengal an official inquiry was made into the shortage of labour. In view of large and increasing population of India this shortage was anomalous and surprising. This scarcity was due to lack of training facilities, absence of suitable recruiting agencies, lack of knowledge, undeveloped means of communication, low wages, high cost of living and bad housing conditions, trying conditions in the factories and prevalence of frequent epidemics. Although conditions in these respects are not even now completely satisfactory, yet a marked improvement has been made, with the result that no industry now experiences any shortage. With the exception of mines and plantations which have some peculiar difficulties, saturation point seems to have been reached now in all industries and competition for employment is becoming keener and keener.

With the exception of Bombay, Calcutta, and Jamshedpur, all other industrial centres draw their labour supply from the surrounding areas, e.g., at Ahmedabad 65 per cent. of the labour supply may be called local. Cawnpore also depends for labour supply on its immediate neighbourhood. Such is the case in areas where population is dense and pressure on land is acute. For Bombay the recruiting areas are in the Ratnagiri District, and the nearby Deccan districts. Most of the labour supply for Calcutta hails from outside a radius of 250 miles especially from Bihar, C.P., U.P., and Madras. Bengalis generally shun manual labour. Jamshedpur draws its labour supply from all over India.

Recruitment, till recently, was done through intermediaries called jobbers, *mukaddams*, *sirdars* or *mistries*. Although primarily a charge-man is entrusted with the work of supervising labour, the jobber occupies a position of much greater importance. For technical training, transfer to a better job, promotion and aid in private and domestic matters, the worker comes to lean on him and is often completely at his mercy. The jobber has taken full advantage of his position by extorting bribes from the workers. Virtually he has been the ear and the voice of the mill manager. But the position is now changed somewhat. Larger and more progressive mills have now appointed labour officers to look after labour and have begun direct recruitment, though in the majority of the concerns the old method is still prevalent. Instead of being recruited in the village, labour is now recruited at the factory gate. In the matter of recruitment, leave, wage payment and discipline, labour is now placed under the departmental heads. The introduction of jobbers' record system and adoption of *badli*-control system in connection with the employment of casual labour, have minimized corruption to some extent. But in view of the intermittent and fluctuating character of labour force, it is difficult to establish a permanent and living contact between the management and labour. Therefore the jobbers still continue to wield an influence which cannot be called inconsiderable and his grip over the worker continues to be strong.

3. Labour Efficiency in India : The human factor is very important in industry as in any other sphere of economic life. Industrial progress depends, in a very large measure, on the efficiency of industrial labour. In this respect India does not seem to be happily placed.

Attempts have been made by some to represent relative inefficiency of Indian labour in terms of output or number of hands employed per unit of machinery. It is pointed out that

an operative looks after 240 spindles in Japan, 540 to 600 in England and 1,120 in U.S.A. but only 180 in India. Again, a weaver in India, it is said, attends to two looms, in U.K. to 4—6 and in U.S.A. 9. Sir Alexander McRobert opined before the Industrial Commission that an English worker was 3.5 or even four times as efficient as an Indian worker. According to Sir Clement Simpson's calculations 2.66 workers in a cotton spinning and weaving mill in India are equivalent to one operative in Lancashire. But such statements do not reflect on any innate inferiority of the Indian worker. More workers are employed in India per unit of machinery, because labour is cheap and machinery is dear and less output per worker is often due to the use of bad material, out-of-date machinery, bad control and derective management. Therefore we cannot subscribe to these pseudo-mathematical representations of the relative efficiency or inefficiency of Indian labour. But it cannot be denied at the same time that even after making allowance for all factors, the fact remains that Indian labour is less efficient as compared with, say, English or Japanese labour. Therefore in India while wages are low, labour is dear, although Sir Hormusji Mody's statement before the Labour Commission that a weaver in India was paid 200—300 per cent. more than a weaver in China or Japan must be considered an exaggeration.

4. Why Indian Labour is Relatively Less Efficient : There are several factors, for most of which the worker himself can hardly be blamed, which are responsible for lower efficiency of Indian labour. Apart from the enervating Indian climate, poor physique, illiteracy and lack of technical training and less disciplined character, the following are the main factors which lower the efficiency of Indian factory worker :—

Migratory Character. Unlike in the West where factory population is permanent, Indian labourers are mostly migrants from the villages. They leave the village to escape from destitution and numerous social disabilities, or penalties for offences against the village social and moral code, or from the money-lender, and to improve their economic condition with a view to purchasing land or other property. The excessive pressure on land and the decay of village crafts and better opportunities in the city drive the people from the villages to the factory areas.

But they do not permanently sever their connection with the village, because, as the Labour Commission remarks, the driving force comes from one end of the channel only, i.e., the village end. "They are pushed, not pulled, to the city." Strange and novel environments of the city, its insanitary conditions and

high cost of living and lack of employment for the whole of the family, compel them to leave their families in the village to which they desire to return sooner or later.

The migratory character affects efficiency. The worker does not feel quite at home in the artificial city life and the strange environments subject him to severe strain, and he becomes a victim to sickness and disease. The fatigued body and over-stimulated mind find dangerous relief in alcohol and gambling. Discipline, long hours of work in a factory to which he is not used, homesickness and mental depression all adversely affect his capacity for, and interest in, his work.

There is, however, the other side too. The villager brings to the factory better physique, and combination of rural and urban life widens the outlook. The periodical visits to the village constitute a nice and cheap holiday which improves his health. Besides, he becomes an instrument for the diffusion of knowledge in the village and thus quickens the mind and enlarges the outlook of the people of his village. The village offers a safe and comfortable asylum in sickness, strikes and lock-outs, in old age and in maternity. For all these reasons the connection with the village, according to the Labour Commission, is an asset of incalculable value. On the whole, therefore, the migratory character of Indian labour is not a cause of his relative inefficiency.

Low Wages. Efficiency of labour depends upon nourishing diet, proper housing and other amenities. But the wages in India are too low to purchase these. For the paltry sum that a worker in India gets he cannot be expected to put in his best and his efficiency must be low.

Low Standard of Living. It follows from low wages that the standard of living of the Indian worker must be very low. Inadequate and unbalanced diet, a dirty hovel to live in, shabby and insufficient clothing to cover his limbs, and complete absence of expenditure on medical aid, education and recreation must affect his health and efficiency. It has been shown that an extra glass of milk has increased height 33% and weight 81%. The Indian worker's diet compares unfavourably even with that of the prisoners. The average monthly income of a worker's family varies from Rs. 45 to Rs. 50, and a large part is swallowed up by debt and travelling expenses to and from home and a part squandered in gambling and drink. With such a meagre income it is idle to expect a worker to maintain himself in reasonable comfort and no wonder that his efficiency is low.

Long Hours and Trying Factory Conditions. A worker who has to work for 10—11 hours every day in the summer hot days or in severe winter in a congested and ill-ventilated factory under an unsympathetic manager cannot put in his best. He cannot be blamed for loitering if he is compelled to rest and look round a little to get some relief which he so badly needs. Factory environments represent a marked contrast to his native environments. His efficiency must naturally suffer.

Unsatisfactory Housing. A further cause of industrial inefficiency is the appalling condition in which the workers are housed. Insufficient accommodation, the dark and stuffy interior of the tenements and their squalid surroundings are the chief features of a working class colony. Single-room tenements seem to be the rule and most of them are not fit for human habitation. They are said to be "cold in winter, hot in summer and wet in rains." In 1932 the mills housed 20% of their workers in Bombay, 15% in Ahmedabad and 12% in Sholapur. Conditions in this respect have been improving in recent times. Many jute mills in Calcutta and cotton mills in Bombay provide quarters for a fair proportion of their employees, but majority of the textile workers are still unsatisfactorily housed. In other industries, conditions are a little better. Most of the sugar mill employees are lodged in mill quarters in open surroundings. Coal mines in Jharia and Bihar have provided good sanitary quarters of approved designs. The housing arrangements at Jamshedpur by the Tatas and at Nagpur by the Empress Mills are very good. The former has built a garden city of 8,000 houses costing, up to 31st March 1942, Rs. 137 lakhs and the latter has laid out a model village with all the necessary amenities. In both cases the employees are encouraged by loans given on liberal terms repayable in easy instalments to build houses for themselves. Further, slum clearance programmes have been undertaken by the municipalities in Calcutta, Bombay, Madras, Karachi and Cawnpore, the Improvement and Port Trusts and some Provincial Governments. The Bombay Government has completed nearly one-third of its gigantic programme of building 625 chawls with 50,000 tenements. Several Provincial Governments have under their consideration housing schemes to clear the slums. But it is a big problem, and no early and easy solution may be expected. Reports of Health Departments in the principal industrial areas still sadly reflect on the dirt, dust and congestions of the workers' colonies. A note by the Delhi Improvement Trust presented in the First Conference of Labour Ministers held in January, 1940, showed that 88,000 people lived in condition of congestion prejudicial to health and convenience. In these circumstances Indian labourer must

continue to show a lower degree of efficiency. The Ahmedabad Labour Union in "A plea for Municipal Housing" points out the standard of working class houses obtaining in advanced countries where they have three to four rooms, with a kitchen and a bath. Our workers cannot even dream of such an accommodation. What standards of work can we expect from them? The problem of improved housing is now receiving the attention of the Government of India who have set up a committee to examine the whole subject.

Absenteeism. There was a high turn-over of labour in Indian factories. Ahmedabad millowners stated before the Factory Commission in 1907 that out of 350 workers in the year, only 50 remained in the second year. It is considered that a worker availed himself of 2-3 days' holiday in a month and 3-7 weeks in a year. It necessitated the employment of reserve with additional costs to the concern.

Indebtedness. Being in debt has adverse psychological effect on the worker and impairs efficiency. Now the moneylenders are forbidden by law from molesting the worker, but formerly they always surrounded the factory gates. The usual rate of interest varies from 75 to 150%. Once in debt, therefore, it is impossible for a worker to extricate himself. An inquiry in Madras showed that of 800 workers all but 13 were in debt on an average for about 6 months' wages.¹

Other factors responsible for relative inefficiency of Indian labour are the defective and inexperienced management, use of bad machinery and materials and weak labour organization. Dr. Vera Anstey thus sums up the position: "Not only is the labour supply intermittent, fluctuating, lacking in ambition and insensitive to the spur of higher wages, but the customary leisurely methods and the bad conditions of life of the urban industrial worker reduce his efficiency and output. If we consider the iniquitous housing, insanitary surroundings and unsuitable dietary (usually also of indebted) factory population of large towns, it becomes obvious that the worker's physical and mental condition cannot be anything but sub-normal. When it is realized that the labourer who is obliged to live in such congenial, unhealthy and soul-destroying surroundings, is in any case illiterate superstitious and untrained, is it to be expected—entirely without prejudice to his mental abilities—that at any wage, however low, his services can be really cheap?"²

1. Shiva Rao—The Industrial Worker in India, pp. 1331-35.

2. Vera Anstey—Economic Development of India, 1936, p. 230.

In order to improve efficiency, it will be necessary to adopt a comprehensive programme of labour uplift. Greater diffusion of technical and general education, raising of wages to a reasonable level, reduction of hours, improved housing and other improvements in working conditions are bound to affect favourably the efficiency of the workers. But above all, a radical change in our ideals is necessary. So long as a worker suffers from a sense of insecurity and fear of unemployment, and so long as he feels that he is working for others, his efficiency cannot rise to the highest pitch possible and he will try to do the least and get the most out of it. He must, on the other hand, be made to feel that his work fulfils a social purpose and he must be guaranteed complete security from want and fear, for thus alone can he have the right morale.

5. Labour Welfare Work: In the past a few enlightened employers, missionary societies like Y. M. C. A. and social organizations like Bombay Social Service League, Seva Sadan Society, etc., interested themselves in promoting labour welfare. Labour organizations, too, have taken keener interest now in this direction. It is now recognized that this type of work is not to be carried on purely humanitarian grounds but also for economic reasons inasmuch as it has a direct bearing on labour efficiency besides giving labour an added sense of dignity and responsibility. Since the advent of Provincial Autonomy the Governments in Provinces became more actively interested in this type of work. Bombay Government was lucky in getting the services of Mr. Gulzari Lal Nanda as Parliamentary Secretary. He was Secretary of the Textile Labour Association, Ahmedabad, for more than 20 years, and no person could have greater interest in labour welfare work than he. The Bombay Government budgeted Rs. 1,20,000 in 1938-39 and 1,93,000 in 1942-43 for this work. Other Provinces have more or less followed the lead given by Bombay. Welfare centres by now have been established in the important industrial towns of the country like Bombay, Calcutta, Madras, Karachi, Cawnpore, Nagpur, etc. The Indian Government has also appointed General Adviser on welfare work.

Among the labour welfare items may be mentioned in educational classes, circulating libraries, indoor and outdoor recreational activities like games, sports, dramatic performances, lantern and other lectures, cinema shows, radios, nursery schools, medical aid, maternity arrangements, etc. An industrial training workshop has been established at Ahmedabad by the Government of Bombay. The work done by the Textile Labour Association, Ahmedabad, especially in the medical and educational sphere (its

educational expenditure amounts to Rs. 50,000 every year), the Tata Iron and Steel Company, Jamshedpur, the Empress Mills, Nagpur, the Buckingham and Carnatic Mills, Binny Mills, Delhi Cloth Mills, etc., deserves special mention.

6. Labour Legislation : Since the advent of modern industry, the employers were free for a generation to use their labour in any manner they liked unhampered by any factory law. The result was that the hours were inordinately long and the wages unduly low. Labour, especially of women and children, was exploited to the fullest extent possible. The conditions in the factories were inhuman and intolerable. For injuries received in the factory, which the unfenced machinery freely inflicted, the worker did not receive any compensation. The heart-rending conditions awakened the sympathies of men like Sorabjee Shapurjee Bongali. The Lanchashire manufacturers also pressed for factory legislation in India, because they thought the absence of it placed the Indian manufacturers at an advantage. A Factory Commission was appointed in 1875 which led to the passing of the *first Factory Act* in 1881. Under this Act the children got a limited protection. But the adult labour continued to suffer. No child was to be employed below the age of seven and the number of hours for them were fixed at nine. There was a provision for four holidays in a month and proper rest intervals. Fencing of dangerous machinery was not provided nor the reporting of accidents. In the absence of proper factory inspection the Act remained almost a dead letter.

The Act naturally did not satisfy the workers or their sympathizers. The workers had to work from sunrise to sunset even on Sundays, and the holidays were devoted to the cleaning of machinery. They did not get any time even for meals. Another Factory Commission was appointed in 1890 and, on their recommendations, the *second Factory Act* was passed in 1899. According to this Act, the minimum age for employment of children was raised to nine, and hours of work for those between ages of nine and fourteen reduced to seven. No woman was to work between 8 p.m. and 5 a.m. and the maximum number of hours for them were fixed at 11 with an interval of $1\frac{1}{2}$ hours. Other provisions were : half an hour compulsory rest daily and a weekly holiday. The Act applied to factories employing fifty persons as against 100 persons in the first Act and the Local Governments were empowered to apply it by notification even to those employing 20.

For the next twenty years no step forward was taken in the matter of factory legislation. During this period two events

of great importance took place, viz. the advent of electricity and plague. The latter seriously cut down the number of workers, who came to be actually auctioned at street concerns. Scarcity of workers led to excessive hours of work. In 1906 Freer Smith Committee and in 1907 a Factory Commission inquired into the working conditions and they referred to the evasion of the previous factory laws. This led to the passing of the *Factory Act of 1911*. Its principal provisions were: 12 hours the maximum limit for men and 6 for children, regulations to ensure safety and health and to make inspection more effective by providing penalties for breaches.

During the World War I, there was intense industrial activity. While the employers made huge profits, prices soared high, wages lagged behind. The workers got their chance at the end of war when influenza epidemic had thinned their ranks. In addition to demand for higher wages, there was a demand for reduction of hours and many concerns themselves agreed to 10-hour day. The factory law was amended and consolidated in 1922.

The *Factory Act of 1922* applied to factories employing 20 persons, prohibited the employment of children under 12, and in two factories in the same day, fixed 6-hour day for those between 12 and 15 years of age and a half-hour interval after 4 hours' work, and limited the hours of adult workers to 60 per week and 11 per day. Women were not to work between 7 p.m. and 5-30 a.m. It contained provisions relating to compulsory rest intervals, a weekly holiday, measures for health and safety and for controlling excessive artificial humidification in the interest of worker's health.

Minor amendments were made by the Acts of 1923, 1926 and 1931.

The working of the *Factory Acts* revealed their shortcomings and the labour leaders and social reformers agitated for bringing the factory legislation in India into line with that in advanced countries. The Royal Commission on Labour was appointed in 1929 and it conducted a comprehensive inquiry into the various labour problems of India. A crop of legislative measures resulted from their recommendations. The factory legislation was overhauled by the *Indian Factories Act of 1934*. According to this Act, no child between 12 and 15 years is to work for more than 5 hours a day and non-adult workers between the ages of 12 and 17 have to produce a certificate of fitness. In the case of adult workers the maximum number of hours was limited to 10 per day

or 54 in the week. There is a provision for a weekly holiday and a rest interval after 6 hours' continuous work. The seasonal factories permitted one to work 11 hours a day or 60 hours per week. The factories can be called upon to adopt cooling measures for the comfort of the workers. The factories have to provide adequate water supply, a shelter for rest, suitable rooms for women and children and adequate first-aid equipment. The Act also limits overtime working and provides for extra pay for the overtime put in. There are provisions for the security of factory structure. Limits have been imposed on the power of Local Governments in granting exemptions.

The Factories (Amendment) Act, 1944, removed some defects of the Act of 1934 and met some difficulties experienced in its administration. An amended Act passed in March (1946) has reduced hours of work to 54 for seasonal and 48 for perennial per week.

In recent years there has been increasing tendency on the part of Provincial Governments to apply the provisions of the factory law, by notification, to all factories employing 11 or more persons by making registration of such factories compulsory.

7. Legislation for the Mines : A separate set of laws was passed to regulate working conditions in the mines. The first Act, which was passed in 1901, only contained provisions relating to safety and inspection, but was silent about the hours of work. The Act of 1923 fixed 60 hours per week for workers above-ground and 54 for under-ground workers, but the number of daily hours was not limited which was done by the 1928 Act when a maximum of 12 hours per day was fixed. As a result of the adoption of Draft Convention in 1931 by the International Labour Conference and recommendations of the Labour Commission, the Indian Mines (Amendment) Act was passed in 1935. It prohibits the employment of any person in mines for more than six days in a week. For the workers above-ground, the maximum number of hours is 54 per week or 10 per day and 9 hours for those under-ground. No child under 15 years can be employed in a mine. It also provides for the recording of accidents necessitating absence for more than seven days. Women cannot be employed under-ground. This provision was relaxed for the duration of war in coal mines due to shortage of coal. Rules framed in 1936, 1937 and 1939 provide for taking strong measures to ensure safety. Mines Boards have been set up with the object of regulating conditions relating to general health of the mines workers.

8. Some other Labour Laws : Besides the laws mentioned above, there are several other laws relating to labour of which the following deserve special mention :—

Payment of Wages Act, 1936 : Although it applies to railways and factories, yet its operation can be extended to tramways, quarries, inland vessels, plantations, etc. The maximum wage period has been fixed as one month, and wages must be paid in currency or coins. Concerns employing less than 1,000 persons must pay the wages before the expiry of the seventh day after the last day of the wage period and those employing more than 1,000 before the tenth day after the expiry of the wage period. In case of termination of services, all amounts due must be paid before the expiry of the second working day after such termination. The permissible deductions from pay include fines, for damage or loss of goods expressly entrusted to the employee, payment for housing accommodation, recovery of advances or adjustments of over-payments, for income-tax, contributions to provident funds, postal, insurance, co-operative dues, for any order of a court of law, etc. No deductions are permitted for damage to material in course of manufacture. Fines are not to be imposed on children. Fines can only be imposed for offences, previously notified and approved by the Provincial Government and the person fined must get an opportunity to show cause why he should not be fined. The total amount of the fine in the wage period is not to exceed half an anna in the rupee and cannot be recovered in instalments or after the expiry of 60 days after its imposition. A record of fines has to be kept and the amounts realized must be spent on purposes beneficial to the workers. Fine for absence must bear the same proportion to the total wage as the period of absence bears to the total wage period.

9. Workmen's Compensation Acts : Up to 1923 an employer could be sued in a court of law under Fatal Accidents Act of 1885 in case of death by accident. But the law was practically a dead letter. The first Compensation Act was passed in that year and it provided for a compensation to be paid to the employee in case the accident occurred during and in course of employment. Amending Acts were passed in 1926, 1929, 1931 and 1933. The worker is not eligible to any compensation in case he was drunk or if he wilfully disobeyed the rules or disregarded the safety devices. The Act also covers occupational diseases the list of which is fairly long. Persons employed in clerical or administrative capacity and those getting more than Rs. 200 p.m. are not eligible for compensation. The Act has been given a fairly wide application and the Provincial Governments can extend its opera-

tion to any other occupation they deem hazardous. The amount of compensation in case of a fatal accident depends upon the average monthly wages of the deceased, and, in case of injury, on the monthly wage and the extent of the injury. For those getting less than Rs. 10 p.m. the compensation in case of death is Rs. 500, for permanent disablement it is Rs. 700 and the wage and a half for a temporary disablement. When the monthly wage is between Rs. 50 and Rs. 60, the corresponding figures are 1,800, Rs. 2,320 and Rs. 15 p.m. respectively. The amounts of compensation for persons earning over Rs. 200 are Rs. 4,000, Rs. 5,000 and Rs. 30 p.m. respectively. In the case of minors, the compensation for death is Rs. 200, for permanent disability Rs. 1,200, and half the wage for temporary disablement. To safeguard the interests of the dependents all fatal accidents have to be brought to the notice of the Commissioner and the amount of compensation has to be promptly deposited with him when the employer admits the liability and in case he does not, the dependents are informed accordingly. Two minor amendments were made in 1939. From July 1924 to the end of 1938 there were 280,000 accidents and the compensation paid amounted to over a crore and a half of rupees. In 1943 there were 44,826 accidents and Rs. 22,83,991 were paid as compensation. The Labour Conference held in November, 1945 decided to recommend the amendment of the existing legislation and make it more favourable to labour.

10. Maternity Benefit Legislation : How unsympathetic the Indian legislators were to the cause of women can be gathered from their rejection in 1924 of a Maternity Benefits Bill moved by Mr. N. M. Joshi. After five years, however, the Bombay Government passed the Maternity Benefits Act which was substantially amended in 1935. Such Acts have now been passed in almost all Provinces and they apply not only to factories but also to plantations and mines. These Acts provide for compulsory rest and a cash benefit for a certain period before and after childbirth, subject to the condition that the employee has put in service for a period varying from six months to a year. During the period of this cash benefit, the employee concerned cannot take up service elsewhere. Maternity benefit is included in the scheme of social insurance prepared by the Government of India recently.

11. Employment of Children's Act 1938 and Amending Act of 1939 : These Acts seek to prevent the employment of children under 15 years in transport services, etc., and below 12 years in certain industrial occupations, the Provincial

Governments being authorized to add to the list of such occupations.

The Children (Pledging of Labour) Act, 1933, seeks to abolish a type of child slavery.

12. Plantation Labour Laws:¹ The first law was passed in 1863, then others followed in 1825, 1870 and 1882. The Assam Labour and Emigration Act was passed in 1901. It regulated the recruitment and employment of indentured labour in Assam and subjected the workers to penal contracts. It involved a form of salvery and was therefore an eyesore to all self-respecting Indians. The principle of indentured labour was withdrawn in 1915 and penalties for breach of contract were done away with in 1927. In pursuance of the recommendations of the Royal Commission on Labour, the *Tea Districts Emigrant Labour Act* was passed in 1932. It aims at exercising necessary control over recruitment in the interests of emigrants to tea gardens. Although no licence for recruitment is now required, yet the recruits have to be forwarded through prescribed routes where arrangements for feeding, rest and medical aid have to be made. The emigrants have the right to be repatriated at the employers' expense after the first three years of service or even within one year if the work is not suited to their personal capacity or for any other sufficient reason. Persons under sixteen years unaccompanied by their parents or guardians and a married woman without her husband's consent cannot be recruited. There is a provision for the appointment of a Controller of Emigrants with one or more Deputy Controllers and their establishment expenses have to be met out of a cess levied on each worker recruited in the form of a charge for a certificate which the employer must get for each employee, failing which he may be fined up to Rs. 500.

13. Legislation Relating to Shop Assistants: It is well known that persons working in shops and other commercial establishments have to work very long hours, sometimes from dawn till late after dusk. While the factory workers attracted the notice of philanthropists, nobody paid any attention to the miserable lot of the shop assistants who did not get any holiday at all or any break for rest or meals. Bombay was the first to pass Shops and Establishments Act which came into force in November, 1940. Three other Provinces, the Punjab, Bengal and Sind followed suit. The Punjab Trade Employees Act came into force on 1st March, 1941, the Bengal Shops and

1. For a history of tea plantations labour legislation see S. M. Akhtar : *Emigrant Labour to Assam Tea Gardens*, 1939.

Establishments Act from 1st April, 1941, and the Sind Act from 20th November, 1941. These Acts provide for a weekly closing and a weekly holiday for employees, the maximum daily hours, the opening and closing hours, remuneration for overtime, holidays with pay, etc. There are, however, certain variations as between one province and another. The Punjab Act has the most extensive applications, but exempts shops dealing with perishables, medicines, places of public entertainments, clubs, hotels, domestic servants, etc., from provisions relating to opening and closing hours and 'close day'. Only the Punjab Act fixes the opening hours 7 a.m. in summer and 8-30 a.m. in winter, while in some other Provinces only closing hour is fixed. The closing hour in the Punjab Act, like the opening hour, varies with season and is not later than 9 p.m. in winter and 10 p.m. in summer. As for the number of hours, the Punjab and the Sind Acts fix 54 hours a week for shops and commercial establishments, the Bengal Act 56 hours and the Bombay Act places a daily limit of $9\frac{1}{4}$ hours for shops and a monthly limit of 208 hours for commercial establishments. Ten-hour day is the maximum permissible for any establishment in the Punjab. Overtime payment is at the rate of $1\frac{1}{4}$ in Bombay and double in Bengal, Sind and the Punjab. The employees are to get one weekly holiday in Bombay, the Punjab and Sind and $1\frac{1}{2}$ days in Bengal. Also, the shops must close for a day in the week in the Punjab and $1\frac{1}{2}$ days in Bengal. In the Punjab minimum age for employment in a commercial establishment is 14, and in case of apprentices 12. Payment of wages must be made in the Punjab within a fortnight of the end of the wage period and within 10 days in Bengal. There is no such provision in Bombay and Sind. Again, while Bombay makes no provision for leave with pay, the Punjab provides for 14 days' leave for a year's and 7 days for six months' continuous service, Bengal for 14 days with the right to accumulate up to 28 days plus casual leave on half pay for 10 days, and Sind 15 days in a year with no right to accumulate. The Punjab Act limits the total fine to be imposed to 3 pies in the rupee and provides for one month's notice or one month's pay in lieu thereof for termination of services on both sides. No other province has any such provision.

The second session of Labour Ministers' Conference felt that it was necessary to provide for a weekly holiday to the shop employees on an all-India basis. Accordingly, Weekly Holidays Act, 1942, was passed giving the Provinces having no

such legislation, an option to apply it. The Act merely provides for a weekly holiday in certain classes of establishments and that such establishments must close for one day in the week.

14. Labour Legislation for Transport Workers.

Railway Workers.—The employment in the railway workshops was regulated by the Indian Factories Act, 1922. But the railways constitute a big employer of so many other classes of people for which there was no provision. But in 1930 Indian Railways (Amendment) Act was passed which gave effect to the International Labour Conventions ratified by the Government of India about a decade ago with respect to railway employees. The Act provides for a weekly rest of full 24 hours and for a 60-hour week. But for the employees whose nature of work is intermittent the maximum is 84 hours a week. In case of emergency or exceptional pressure of work exemptions can be granted and in the case of the latter overtime shall be paid.

Maritime Workers. These workers are covered by the Indian Merchants Shipping (Amendment) Act of 1931. According to this Act, young persons below a certain minimum age cannot be employed as trimmers and stokers. An indemnity has to be paid if the ship is lost or founders. Young persons employed at sea must be medically examined. There are several other provisions to protect their rights. According to Indian Ports Acts of 1922 and 1931, children under 12 are not to be employed to handle goods in ports. In case of accidents in loading and unloading for goods, the dockers are protected by the Indian Dock Labourers Act, 1934.

15. Relief to the Indebted Workers. Royal Commission on Labour had made several recommendations in the matter. In pursuance of their recommendations, the Government of India amended Civil Procedure Code exempting from attachment a salary below a certain limit. An experimental measure was passed for Delhi Province abolishing arrest or imprisonment for a debt for all those who were getting less than Rs. 100 per month. On the suggestion of Government of India, Workmen's Protection Act was passed in Bengal in 1934 which makes it a criminal offence to beset a factory for collecting a debt. This will prevent the harassment of a debtor by his creditor. Such legislation is being contemplated in some other provinces too.

16. Uniformity in Labour Laws Essential: Each Ministry under Provincial Autonomy, in its zeal to improve labour conditions, prepared independently its own programme of labour

legislation. It was feared that unco-ordinated labour laws imposing unequal financial burdens on industry and creating different conditions of work in different Provinces might weaken the competitive strength of industries in certain Provinces as compared with others. Also, that, as a result of this unequal treatment and conditions, industries might migrate to areas less suitable for the purpose simply to avoid rigorous labour laws. With a view to ensuring uniformity in labour laws, a conference of Provincial Ministers of Labour together with representatives from Indian States has been convened by the Government of India every year since 1940. The employers too held a representative meeting in September 1941. As a result of these deliberations, a tripartite conference consisting of the representatives of State (Government of India, Provincial Governments and State Governments), the employers and the employees was held in 1942. A Standing Advisory Committee consisting of these three interests has been set up to advise the Government of India on matters concerning labour.

17. Some Gaps in Indian Labour Laws : Although since the Royal Commission on Labour reported there has been increased legislative activity in the sphere of industrial labour, yet there are still important gaps which need filling up. The measures enacted so far cover only a small percentage of the total number of workers engaged in the various branches of industry. There is an immense number of small establishments where sweating labour conditions prevail and the workers there have yet no protection of the law. In C.P., however, the Unregulated Factories Act, 1937, seeks to regulate the labour of women and children and to provide for labour welfare in factories not covered by the Factories Act. Besides, while every other country has adopted social security measures and makes provision against sickness, unemployment, old age, and poor relief, there is no such provision in India. The other countries have decided even to go further after the war, but the future of our labour is yet as gloomy as ever. England, Canada and U.S.A. have prepared far-reaching social security schemes. The U.S.A. scheme has been described as a 'breath-taking' one and the expenses are expected to amount to astronomical figures. It is necessary that some measure, however modest, of social security should also be provided for Indian labour.

Dr. Ambedkar referred while presiding over the 7th Labour Conference held in November, 1945, to State's obligation to labour. India has yet to ratify 49 out of 63 conventions adopted by the International Labour Conference.

18. Industrial Peace and Machinery to Secure it: For Industrial progress and prosperity maintenance of peaceful relations between labour and capital is of the first importance. Industrial conflict means a loss both to the employers and the employees even when the latter score a victory, and is harmful to the community in general. Therefore, every effort is made in advanced countries to see that industrial peace is not disturbed.

For a long time in India conditions of industrial unrest did not exist. Although modern industry began to grow in India in about the middle of the last century, yet for nearly half a century no dispute of importance took place. Whenever a dispute did take place, the employers came out invariably victorious. They were all-powerful and they could easily import 'black legs' in case the workers 'downed' tools. The workers, on the other hand, were hopelessly unorganized and absolutely inarticulate. The use of strike as a weapon to fight the capitalists was unknown. It was only in the present century that the workers became class-conscious, but even then up to 1919 the disputes between labour and capital were sporadic.

During the World War I there was intense industrial activity and abnormal profits were earned. Thirteen jute mills declared dividends of more than 200 per cent. To take the fullest advantage of the war opportunity, the factory owners clamoured for exemptions from the operation of the Factory Acts. But by this time workers had become vocal. They were no longer dumb-driven cattle. They were conscious of their rights and were prepared to fight for them if necessary. The influenza epidemic of 1918 which took a toll of about eight million people thinned their ranks and gave them an opportunity for which they were waiting. The year 1919 saw the outbreak of industrial strife on an organized scale. Concerted strikes took place in textile mills in Bombay, Ahmedabad and Cawnpore.

The post-war boom was short-lived and by the end of 1922 there was an acute depression. Wages were found to be higher than the pre-war level. A move to make a cut in 1923 in Ahmedabad led to a big strike. Bigger strikes came in 1924. A committee presided over by Sir Macleod, Chief Justice, Bombay, came to the conclusion that the dearness allowances and bonuses granted during the war were no longer justified and gave their verdict against the workers. The year 1925 was still worse. A move to make a wage cut of 12½% led to a general strike lasting for two months in which the workers put up stubborn

resistance against an attack on their wages. Both sides were adamant for some time, but the employers gave in when the Government suspended the Cotton Excise Duty. This was the first great victory for the workers. There was a loss of 12.6 million working days in 1923. The next two years were relatively calm, but both sides seemed to be quietly consolidating their positions. In 1928 there was an outbreak of industrial conflict of unprecedented intensity. Revolutionary and anarcho-syndicalist elements had infiltrated into the workers' organizations pledged to destroy the existing capitalistic structure, and they preached class-hatred and often engaged in subversive activities. When the Sassoon group of mills introduced some measures of 'rationalization' to improve mill efficiency by asking the workers to mind more machines, opportunity was taken to declare a general strike. All mills in Bombay were affected and stopped work for more than six months. There were other strikes, too, in some railways, at Jamshedpur, Sholapur and Cawnpore. In all, there were 203 disputes in the year involving 506,850 workers with a loss of over 31 million working days. The workers demanded the appointment of an impartial committee and they called off the strike when the Fawcett Committee was appointed.

As a means of dealing with such disputes, a *Trade Disputes Act* was passed in 1929 and some amendments therein were made in 1934 and 1938. Any dispute or apprehended dispute under this Act can be referred to a Court of Inquiry or a Board of Conciliation by Government of India, in case of railways or concerns under Central Government, and by Provincial Governments when the concerns fall under their sphere. The Court of Inquiry was to be composed of an independent Chairman and other independent persons or only one independent person. The Court is asked to investigate and report. The report is published to focus public opinion which may influence the parties to the dispute to come round. The Board of Conciliation is to consist of one independent chairman and two or four other members representing equally both the parties and nominated by them. The Board tries to settle the dispute. The verdict of these bodies may not be accepted by the parties, although they are expected to do so. There are special provisions relating to public utility services, i.e., post and telegraph, railways, tramways or undertakings supplying water, light, etc. For the employees of such services to go on a strike without giving 14 days' notice is a penal offence. It provides for the appointment of Conciliation Officers to promote the settlement of a dispute. Strikes and

lock-outs which are calculated to inflict severe and general hardship on the community and are declared for a purpose other than or in addition to the furtherance of a trade dispute in the industry, are illegal. Punishment is provided for those who join such illegal activities, and protection from union disabilities to those who refuse to join them.

In 1929 again there was a general strike lasting for about six months involving over 109,000 workers in 62 mills and resulting in a loss of 7 million working days. The years 1928 and 1929 were the worst. They alone accounted for a loss of 43.8 million working days as against 40.4 million days in the preceding seven years and 16.7 million in the subsequent seven years. Under the Trade Disputes Act, 1929, a Court of Inquiry was appointed with Justice Pearson as the Chairman. The Court put the whole blame on Girni Kamgar Union. Between 1930 and 1933 comparative calm prevailed on the labour front in India. As the economic depression deepened there was a general movement to cut down wages, but as there was widespread unemployment, labour did not show any serious opposition.

As a result of the Report of the Departmental Enquiry instituted by Bombay Labour Office, a *Trade Disputes Conciliation Act* was passed in Bombay in 1934. It provided for the appointment of a Labour Officer to look after the interests of the workers in cotton mills and to represent their grievances with a view to getting them redressed. There was also a provision for the appointment of Commissioner of Labour to act as an ex-officio Chief Conciliator in cases where the Labour Officer did not succeed. In actual practice he was treated as a judge whose decisions were generally accepted. The Act remarkably succeeded in slowing down the tempo of industrial strife in the Province. The years 1934-36 were, therefore, comparatively free from industrial conflicts.

But the inauguration of Provincial Autonomy saw the recrudescence of industrial strife. The coming into power of popular Ministries raised high hopes among the workers who thought that the time had come when all their grievances, real or imaginary, would be redressed. In three years 1937-1939, there were 1,184 disputes as against 1,039 in seven years since 1930. The disputes now were more frequent but less protracted as compared with those in 1928 and 1929. Between 1937 and 1939 there was a loss of 23.2 million working days.

In 1938 in Bombay was enacted the *Bombay Industrial Disputes Act* which is a most advanced piece of legislation on the subject.

According to this Act, strikes and lock-outs are illegal until the whole machinery for conciliation and arbitration of the dispute has been made use of. Conciliation will be attempted before the dispute occurs and not after. They employers must give notice to the representatives of the employees of any changes they propose to make in wages, hours of work, conditions of employment, etc. They have also to submit a draft of the standing orders which they propose to adopt and these will be settled by the Commissioner of Labour after consulting all concerned. No change is then permitted unless a due notice is given to the employees who also have to give notice to the employers in case they desire any change. According to the Act, unions recognized by the employers or those which have a certain percentage of the persons engaged in the industry as their members can be registered so as to be able to act as representatives of the employees. In the absence of a recognized union, the Labour Officer or the directly elected representatives of the workers will conduct the negotiations. All the agreements arrived at as the result of conciliation have to be registered. Besides the appointment of conciliators and Board of Conciliation, the Act also provides for the setting up of an Industrial Court with a High Court Judge as its Chairman or a lawyer who is eligible to be a High Court Judge. The Court will arbitrate on matters connected with a dispute and act as a final court of appeal on various matters arising out of the working of the Act and interpret agreements, awards, etc. The Act was bitterly criticized by some labour leaders as seriously affecting the right of labour to strike. But the Act simply asks them to wait and see if the dispute cannot be settled in a peaceful manner. In case they fail in this, they can go on a strike. The Act is based on the idea of collective bargaining, but it does not seek to provide any internal organization to ensure smooth and peaceful relations between the employer and his employees.

After the outbreak of the World War II several strikes occurred. The workers put up claims for a share in abnormal war profits. There was a general strike in cotton mills in Bombay city in 1940 and a dispute in 1941 in Ahmedabad and a large number of disputes all over India in 1942 on the question of a war bonus and on account of political disturbances. But their demands for dearness allowances and war bonuses were readily conceded. In this nation-wide expansion of industry, there was work for everybody. There was a keen demand for labour. Labour grasped this opportunity with both hands and made the most of it by a strong and concerted action.

In 1944 there were 658 industrial stoppages in British India involving 5,50,015 workers. The total number of mandays lost was 34,47,306.

Lest it should affect the war effort it was felt necessary to devise some machinery to avoid strikes and lock-outs. With this object in view *Rule 81-A of the Defence of India Rules* was issued in January, 1942. This rule was supplemented by two notifications issued on 12th March and 20th May, 1942. According to this rule as supplemented above, the Central Government and Provincial Governments had the power to issue an order prohibiting strikes and lock-outs, requiring employers to observe certain conditions of employment, referring to the Government a dispute for conciliation or adjudication and enforcing the award of the authority to which the dispute was referred.

By virtue of this rule a General Order was issued by the Government of India on 6th March, 1942, prohibiting the workers in any undertaking from going on a strike unless they gave 14 days' notice within one month before striking. This order also provides that when a dispute has been referred for conciliation or adjudication, no strike is permitted until after the expiry of two months after the proceedings have finished.

Essential Services (Maintenance) Ordinance, 1941: Under this Ordinance, the Central Government can declare a work in any undertaking as an 'essential' service. In the case of that service the workers cannot give up employment, and they can be punished if they disobey any lawful order, the order not to strike being a lawful order. In such undertakings the Government is empowered to regulate wages and other conditions of employment.

19. Labour Movement in India: Labour movement in India is still in its infancy. It was very slow in developing and up to the end of the War (1914-18) Indian labour was practically unorganized. In 1875 Mr. Sorabjee Shapurjee Bongali drew the attention of the Government to the miserable lot of the labourers. But the first important step towards organizing labour was taken by Mr. Lokhande in connection with the agitation for the amendment of the first Factory Act. He prepared a memorial signed by 5,500 workers and organized a mass meeting in Bombay attended by 10,000 workers. He also laid the foundation in 1890 of the first organization of labour, viz., the Bombay Mill Hands Association. But it was a loose organization formed simply for presenting a memorial to Government. The Amalgamated Society

of Railway Servants of India and Burma was formed in 1897 with functions more fraternal than militant. Of the other organizations formed in the beginning of the present century, mention may be made of Printers' Union, Calcutta, 1905, Bombay Postal Union, 1907, and the Kamgar Hitwardhak Sabha in 1910. This the latter was composed of a body of social workers to plead the cause of workers. It was for them and not of them.

The World War I was responsible for mass awakening. Seeing that the capitalists were reaping a rich harvest of war profits, the workers wanted their own share, especially when the cost of living had gone up very high. Discrimination against Indian labour in the colonies, the growth of Indian national movement and a Revolution in Russia were also some of the factors that gave a fillip to the Indian labour movement. New ideals came to be preached and new aspirations cherished. A spirit of defiance was abroad. 'With the social mind surcharged with war spirit, political agitation and the revolutionary ideal, the labouring classes could no longer remain patient and tolerant under the old social wrongs and new economic disabilities.'¹ The credit of forming the first industrial union belongs to Mr. Wadia who organized in 1918 the textile workers at Coolai in Madras and next year the number of unions rose to four with 20,000 members. Other industrial centres followed suit and formed organizations of local workers. Between 1919-1923 scores of unions came into existence. Mahatma Gandhi in 1920 formed at Ahmedabad a Spinners' Union and a Weavers' Union and by the middle of 1921 trade unions had 20,000 members with funds amounting to Rs. 75,000. These early unions were, however, mere strike committees and evaporated as soon as their demands were fulfilled. They seldom gave notice of a strike, could sometimes hardly formulate any grievances and would often shift their ground or put forward extravagant claims. Further, the unions were isolated from one another without any solidarity among them.

Soon a movement for co-ordination set in. The necessity of electing delegates for the Annual International Labour Conference gave some impetus to this movement. The local unions were federalized, and then Provincial Federations came to be formed. The first All-India Trade Union Congress—a national federation of all unions—was held in 1920.

In the well-known case of the Buckingham Mills in 1920, the Madras High Court issued an injunction against the Madras Labour Union for inducing workers to go on a strike. This

1. Das, R.K.—Labour Movement in India, 1923; p. 25.

was a bolt from the blue, for the Labour leaders suddenly discovered that they could be prosecuted for bona fide trade union activities. After about five years' efforts, the leaders succeeded in getting the **Indian Trade Unions Act of 1926** passed. This Act lays down certain conditions regarding registration of a union. For example, 50% of the members of the executive committee must be employed in the unit or units covered by the union. In Sind, according to an Act passed in 1942, the proportion is two-thirds. Further, their rules must provide for certain necessary matters. Subject to this, any seven or more members can apply for registration. No person under 15 can be a member of a union. Registration can be cancelled in case of non-compliance with the provisions of the Act. The registered unions are not allowed to use their funds for political purposes, although they are permitted to have separate political funds to which the subscription is purely voluntary. The purposes for which the funds can be spent have been definitely laid down. They are also required to submit annually an audited statement of accounts, a copy of the rules and a list of the officers and executive committee. They have also to provide for the inspection of books. But the Act confers on registered unions certain rights and privileges. They enjoy immunity, both civil and criminal, from prosecution for their activities connected with the furtherance of a trade dispute. As a result of the deliberations of the 7th Labour Conference held in November, 1945, it has been decided to amend this Act and place the Trade Union Movement on a better footing.

In the beginning the unions were slow to register themselves for there were practically no prosecutions after the Buckingham Mill case and the unions were unwilling to undergo the expense of registration and inconvenience of submitting annual returns. But this inertia was soon overcome and registration proceeded apace. The attitude of the employers using non-registration as an excuse for not recognizing a union also accelerated the movement for registration.

In 1928-29 communists and left-wing radical leaders captured the key positions in Trade Unions. Their Girni Kamgar Union in Bombay succeeded in enrolling 50,000 members. The membership of the unions all over India mounted up. But the subversive activities of this extremist element led to the arrest of 31 ring-leaders who were tried in the famous Meerut Trial. But rioting and lawlessness continued. As the result of the report of the Court of Inquiry in 1929, which held the Girni Kamgar Union solely responsible for such violence and disturbances, the Trade

Unionism in India was discredited. When the radical wing captured the All-India Trade Union Congress in its tenth session held at Nagpur, in 1929, the moderate elements under Mr. N. M. Joshi seceded and formed the All-India Trade Union Federation. This split seriously weakened the Trade Union Movement in India. In 1931, there was a further split when extreme left wing leaders Deshpande and Randive formed the All-India Red Trade Union Congress. All interested in labour welfare deplored this split. But although efforts at compromise were started in 1931, when a Trade Union Unity Committee was formed which put forward a 'platform of unity', yet the gulf was really bridged in 1938 through the efforts of Mr. Giri, Minister of Labour in the Madras Government. The provisional agreement was finally ratified in 1940. But the outbreak of war led to some secessions, the difference centring round the question of the war effort. The Trade Union Congress adopted an attitude of neutrality, although the members were granted freedom of action. Dr. Aftab Ali, President Seamen's Union, did not like this lukewarm attitude and wanted to support the war effort. His union therefore seceded. The 'Royists' who were in favour of an all-out support for the war effort, formed their own organization, the Trade Union Federation with Mr. Jamnadas Mehta as the President, and Mr. M. N. Roy as the Secretary. To this organization 200 unions with a quarter million members got affiliated. Besides the 'Royists' another important group outside the Trade Union Congress is the Hindustan Mazdoor Seva Sangh, an organization which aims at organizing labour on the lines laid down by Mahatma Gandhi.

According to the Constitution of 1935 registered unions have to serve as a constituency to return labour representatives in the Provincial Legislatures. This has served as an incentive for the registration of unions. Even the Textile Labour Association, Ahmedabad, which is the best, the largest and most highly organized union and which had stood aside on political grounds has also got itself registered. Since the passing of the Trade Unions Act in 1926, there has been a considerable growth in the number of registered trade unions which was 29 in 1927-28 and 666 in 1939-40, of these latter 450 unions which furnished returns had more than 500,000 members of whom only 3 per cent. were women, and they had an income amounting to Rs. 11.22 lakhs. At the end of the year 1941, there were 750 unions with a membership of nearly 650,000.

The Trade Union Movement in India has made remarkable progress in less than a generation. In few other countries such a rapid progress has been shown in so short a time. The move-

ment is fairly widespread and the Trade Union idea has taken deep root. The unions are no longer mere strike committees. They are now better organized having an office and duly elected office-bearers and are more permanent in character. They have acquired a following and a prestige and wield an influence which cannot be described as negligible. They have a fairly large number of successes to their credit and have undoubtedly succeeded in wresting important concessions and improving the working conditions. Leaders like Mr. N. M. Joshi, and Mr. Gulzari Lal Nanda will do honour to any labour organization in the West. The International Labour Conventions drafted every year, the press and the public opinion and the Indian national movement have all contributed to the growth and strength of the Trade Union Movement in India.

But our Labour movement cannot claim to have come as yet even near the standards long ago attained in the West. The Trade Unions in India can yet claim as members only a small fraction of the total strength of the industrial force. Hardly 5 per cent. of our industrial labourers have yet joined the unions; the corresponding figure in England is 90 per cent. Few labour leaders have risen in India from the labour ranks. Most of the leaders are outsiders, lawyers and other professional men or politicians. The funds at their disposal are meagre and they cannot afford to support the workers on strike. Few unions pay unemployment, sickness and old-age benefits. Not many unions do any welfare work. Their fraternal or "mutual-help" side is practically undeveloped and they have confined their activities almost exclusively to the militant functions, i.e., getting their grievances redressed and formulating demands for higher standards and better conditions. The Textile Labour Association of Ahmedabad is an honourable exception and is doing very creditable welfare work. According to its report for 1936-37, it treated in its well-equipped hospitals 703 indoor patients and 49,176 day-patients. It ran 22 schools having 1,667 students, spent nearly Rs. 41,000 on educational work. They paid during the previous 10 years Rs. 45,000 as victimization benefits.

There are certain handicaps from which the trade union movement in India suffers. The labourers are illiterate, ignorant and migratory without any permanent interest in industry. They are unwilling to submit to discipline and unable or reluctant to pay subscriptions. Diversities of language, religion and caste and being drawn from distant and strange places with their different social customs and habits are serious obstacles in building up labour solidarity. Their low wages keep them down. Long

hours of work do not leave any energy in them to take interest in the union activities. In the depressed conditions that our labour is in, it is idle to expect them to think of union politics. The hostility of the jobbers and the employers has been another stumbling-block. The leaders have sometimes been opportunists and have had their own axe to grind. They often quarrel among themselves, holding divergent views and labour has been not infrequently exploited. Leadership must be developed from within the labour ranks if the movement is to be placed on a stable footing. It is hoped that as workers with education and intelligence join the factories, it will be possible to do these things. The employers must also adopt a more sympathetic attitude and be easily accessible to their workers. They must realize that only a strong labour union can guarantee industrial peace.

SOME OTHER PROBLEMS OF LABOUR

20. Hours of Work: Broadly speaking, the working hours in the seasonal factories are limited to 11 hours per day and 60 hours per week and as for the perennial factories the limit is 10 hours a day and 54 hours a week. But the actual hours worked vary from industry to industry and even in different concerns in the same industry. In the mines the weekly hours range from 38 to 51. The textile mills all over India work for 9 hours per day and in some cases a little more when Saturday is a half-holiday. Recently the relay shift system has been introduced where the workers are given rest by turns. The Sassoon group of mills for the last 6 or 7 years have been working on the basis of three shifts of 7 hours each. In order to fill up the gap caused by reduction of imports and to meet increased home demand the cotton spinning and weaving mills have been permitted, by virtue of a press note issued in November, 1941, to work for 60 hours per week. In the jute mills, according to an agreement of March 1939, the hours were ordinarily limited to 45 which can be reduced to a minimum of 40 by 75 per cent vote or increased to a maximum of 54 by 51 per cent. vote. There was a provision in the agreement for an increase in the hours in case of a boom or war. The actual working hours, therefore, varied from 54 to 60 hours per week. Munition factories, oil and sugar mills work for the full time permitted under the Factory Acts. Where continuous working is essential, e.g., in electric generating plants, there are three shifts. The big railway workshops also work three shifts of 8 hours each and smaller ones 60 hours a week where the work is continuous and 84 hours a week where it is intermittent. There is no legal restriction on the working hours of

dock labourers and their hours vary from 9 to 11 hours per day. Reduction of hours in the regulated factories has also influenced the unregulated ones in bringing their hours to more normal standards. Experience has fully justified this reduction. Working hours can still be further reduced without curtailing the output or adversely affecting the industries in any manner but to the great advantage of the workers. It will have a salutary effect on their health and efficiency from which the industry in the long run is sure to benefit. The Labour Conference held in November 1945 unanimously supported 48-hour week.

21. Factory Discipline The Indian labourer is said to be least disciplined, incapable of continuous and sustained work and fond of loitering and having a holiday, so that the degree of absenteeism and turnover is very high indeed. But for this the worker is not entirely to blame. The employers have adopted a wrong remedy to cure the disease. They have tried to enforce discipline by inflicting monetary punishments in the form of fines and deductions from wages which are now regulated by the Payment of Wages Act, 1937. The root cause of the trouble lies in low wages and unattractive and soul destroying conditions prevalent in the factories, which compel the worker to seek a change. The investigations by the Labour Office of the Bombay Government have shown that the turnover is the highest where the wages are the lowest and conditions of work least attractive and it is the lowest where these conditions are most favourable. As the result of the passing of Bombay Industrial Disputes Act 1938, a decision by the Industrial Court has resulted in the improvement of standing orders enforced in the textile mills in Bombay and these standing orders have been widely adopted by the mills in other centres. But unless there is a marked improvement in the conditions of work and employment, the factory-owners will have to complain of lax discipline among the factory operatives.

22. Industrial Safety. In spite of the provisions of the Factory Acts and the Mines Acts and stringent factory inspection calculated to prevent or minimize the accidents, the number of accidents has been increasing at an alarming rate. There were 44,821 accidents in 1943. It is said to be due to better reporting of accidents, marked expansion of industrial activity, fatigue and longer exposure to risk on account of longer hours and the employment of persons not used to such a type of work. It is also said that the increase in accidents is due to the inducement offered by the Compensation Act. But this is simply senseless. It is necessary to carry on a vigorous and country-wide "Safety-First" campaign. The Safety-First Association of India, the

Railway Administration and the Bombay Mills Association have been carrying on "Safety-First" propaganda through cinema films, magic lantern lectures, holding "Safety-First" and first-aid classes and by putting up attractive posters in prominent places. The Bombay Mills Association has issued a Safety-First Code. The larger concerns have instituted Safety-First Committees. It is hoped that this campaign will bear fruit and the number of accidents will diminish. But recently the situation seems to have deteriorated. As compared with 1942 there were 44 per cent more accidents in 1943.

23 Industrial Health: In physique and health, the Indian labour is definitely inferior to that of other industrialized countries. Adverse climatic conditions, bad and insanitary housing and congestion, illiteracy, ignorance, fatalistic outlook and, above all, poverty are some of the chief causes of the prevalence of deadly diseases among the labour population, so that their health and vitality is at the lowest ebb. There is almost a continuous cycle of ever-recurring epidemics. The Punjab suffers most from tuberculosis, Bengal from malaria and kala-azar, Bihar and Orissa from beri-beri and so on. These epidemics and diseases so undermine the physique and health of the Indian labour that his efficiency is seriously impaired. The Labour Commission took a very serious view of the matter. That is why the Factory Act of 1934 contains provisions for the safeguarding of the health of the workers and for the maintenance of sanitary and hygienic conditions in the factories. The factories have now to make arrangements for cleanliness, lighting, ventilation, water-supply for drinking and washing, adequate latrine accommodation, artificial cooling, whitewashing and disinfecting, removal of dust and dirt, for a standard space, accommodation for the residence of workers, etc. Since the passing of this Act remarkable progress has been made in these directions. The large industrial establishments maintain well-equipped dispensaries and hospitals attended by duly qualified doctors and nursing staff. The Provincial Governments and the local bodies are also doing something to improve sanitation and to provide medical facilities. But such facilities cannot be described as fully adequate to meet the requirements. The public expenditure on health and medical aid is still ridiculously small. With the present state of health and physique of our workers, it is idle for us to compete in the industrial race.

24. Social Insurance: Almost all advanced countries have provided for insurance against sickness and unemployment and

have made arrangements for old-age pensions on a contributory basis, worker, employer and state each contributing. But in India it remains still a far-off ideal in spite of the International Labour Conventions adopted in the matter. The matter relating to sickness insurance did at one time engage the attention of the Government of India. But on account of practical difficulties, administrative and financial, it did not appear to be feasible to introduce any form of social insurance. Sometimes the employers put forward the plea that the industry cannot bear the additional cost which such schemes must involve and that the workers do not like to contribute. There is not much substance in these arguments. Such costs should be considered as the essential costs and not the "additional" costs and the industry must manage to bear this expense. As for the workers, when they come to understand such schemes, they will be only too glad to contribute. This would help in building up a permanent wage-earning class and diminish absenteeism and turnover. Social insurance is long overdue and whatever difficulties have to be faced must be overcome in the name of humanity. Some large industrial concerns give small pensions for long and faithful service, but they are mostly *ex gratia* and cannot be claimed as a matter of right. Bengal is contemplating the introduction of old-age pensions for jute-mill workers. It is hoped that such legislation will be undertaken on an All-Pakistan basis. The Government of India has prepared a scheme of social insurance and obtained for the purpose the assistance of two experts from the International Labour Office in the persons of Mr. Stock and Mr. Rao.

25. Other Benefit Schemes and Financial Aids :

Gratuities.—Gratuities are paid to railway servants and employees of local bodies and larger public companies subject to a specified period of approved service. Retirement Benefit schemes have been introduced by large industrial establishments like Lever Bros. and Tata Iron & Steel Co. The Tata's pay on retirement a gratuity equal to half a month's salary of each completed year of unbroken service to all non-covenanted, permanent employees getting not more than Rs. 500 p.m.

Provident Funds.—Provident schemes on a contributory basis are in operation in Government Ordnance Factories and those owned by public bodies and railways and in large public utility services like Bombay Electric Supply and Tramway Company, Tata Electric Plants, etc. Usually the employee contributes 1/20 of his pay and the contribution of the employer varies from 50 per cent. to 100 per cent of what the employee contributes. The

employees can withdraw their own subscription at any time on relinquishing their posts, but the whole amount including the employers' contribution can be withdrawn only on the completion of certain specified period of approved service.

Co-operative Societies.—Almost all large industrial concerns have now established co-operative credit societies for the benefit of their employees. The movement has made a remarkable progress during recent years. In the Tata Iron & Steel Company, Jamshedpur, there were at the end of 1938, 26 co-operative societies with 11,582 members and Rs. 10,29,876 paid-up capital.

WAGES AND COST OF LIVING

26. Wage Rates and Earnings : On account of the paucity of reliable statistical information about the wage rates no accurate and definite statement can be made on the subject. Government of India tried to institute a wage census in 1921, but the attempt was abandoned due to financial consideration. Only in Bombay the Labour Office has been conducting from time to time some inquiries into the problem. It conducted a general wage census in 1934, and a special inquiry into wages of the textile workers in 1937. In other provinces no exact information is available.

Further, with the exception of Ahmedabad, where the wage rates are settled by negotiations between the Textile Labour Association and the Ahmedabad Millowners' Association, there is complete absence of wage fixing machinery or the "union" rates. No standardized rates prevail and each industrial unit arbitrarily fixes the various grades. Thus there are wide variations of wage rates from province to province and from industry to industry and even from one concern to another in the same industry. For each individual the wage is fixed by bargaining and may depend to some extent on personal competence or efficiency. Another thing worth noting is that there is no consolidated rate. War allowances during the first war were never completely taken away and continued as separate items even up to the outbreak of the recent war.

The rates given below have been taken from the Indian Year Book 1942-43 (p. 499) and are intended to give only a general idea about the earnings in some important occupations:—

Occupation	Period of payment	Cities Rs.	Rates in Towns Rs.	Mofussil Rs.
Foreman (European)	... Monthly	500 to 700	400 to 600	350 to 550
Foreman (Indian)	"	250 to 400	150 to 300	150 to 250
Chargeman	"	150 to 250	100 to 225	75 to 200

Occupation	Period of Payment	Cities Rs.	Rates in Towns Rs.	Mofussil Rs.
Mistries	"	100 to 150	80 to 110	55 to 90
Steam Engine Drivers	"	50 to 75	40 to 70	50 to 30
1st Class Boiler Attendants	"	80 to 100	65 to 80	50 to 70
2nd " " "	"	50 to 80	45 to 60	35 to 50
Foreman	... Monthly	45 0 0	35 0 0	30 0 0
Cabinet makers	... Daily	4 8 0	—	—
Carpenters, 1st Class	"	3 4 0	2 12 0	2 0 0
" 2nd Class	"	2 8 0	2 0 0	2 0 0
Fitters, Linesmen	"	4 0 0	3 4 0	2 8 0
" Superior	"	3 8 0	3 0 0	2 8 0
" Ordinary	"	2 0 0	1 8 0	1 4 0
Mechanics Superior	"	4 0 0	3 4 0	—
" Ordinary	"	2 8 0	2 0 0	1 12 0
Blacksmiths	"	2 12 0	2 4 0	1 12 0
Hammermen	"	1 8 0	1 4 0	1 0 0
Pattern makers	"	4 0 0	3 0 0	2 8 0
Moulders, Superior	"	3 4 0	2 12 0	2 4 0
" Ordinary	"	2 0 0	1 12 0	1 6 0
Riveters	"	2 12 0	2 4 0	1 12 0
Welders	"	3 0 0	2 8 0	—
Masons	"	2 0 0	1 8 0	1 4 0
Cobblers	"	1 8 0	1 4 0	1 0 0
Mechanic's Assistants	"	1 8 0	1 4 0	0 14 0
Weight Lifters	"	1 4 0	1 0 0	0 14 0
Semi-skilled workers (all occupations)	"	1 8 0	1 2 0	0 14 0
Unskilled workers (all occupations) men	"	1 4 0	0 14 0	0 12 0
" women	"	1 0 0	0 10 0	0 8 0

According to the General Wage Census taken in Bombay in 1934, the daily earnings of adult workers in cotton mill-industry were:—Bombay City Re. 1-1-10; in Ahmedabad Re. 1-5-7; in Sholapur Re. 0-11-8. The monthly earnings in engineering and other skilled occupations were: Bombay Rs. 41-8-5; Ahmedabad Rs. 33-7-4; Sholapur Rs. 22-1-4. The average monthly earnings in the jute industry in Calcutta are said to vary between Rs. 10 for a bobbin cleaner to Rs. 40 or 50 for a metal turner. The average monthly earnings of a family in tea plantations vary from Rs. 15 to Rs. 30. In the coal mines the underground workers' daily earning on average are: loaders 8 as. to 12 as.; miners 10 as. to Re. 1 and foremen 12 as. to Re. 1-8-0. On account of dearness allowances the earnings are today much higher. But the increase is neutralized by increase in the cost of living. The scales of earnings prevalent in Indian industry are hardly enough for an average working class family to make both ends meet. Only a considerable rise in wages can improve labour efficiency.

27. Some Objections to Increase of Wages answered : It is sometimes argued that increase in wages will be squandered away in drink and other ill-advised expenditure or that it will induce the worker to have some holiday and thus add to the already high degree of absenteeism or that it will be neutralized by increase of population. Further, that a higher scale will be beyond the capacity of the industry to bear so that the country's industries will be beaten in international competition. But these arguments cannot stand even a cursory scrutiny. No doubt a sudden and large increase in earnings may result in some foolish expenditure. But if the higher scale is maintained this folly will be only a passing phase and if the increase is gradual there will be no danger of foolish expenditure at all being indulged in. It will lead to improvement in standard of living and the desire to maintain that standard will keep the population down. It is too late in the day to appeal to exploded theories of population or wages. To say that increase in wages will lead to off-days is to misunderstand the psychology of labour, for it means the satiety point with respect to earnings has already reached, which is simply ludicrous. As for the industry's capacity to bear the proper scale of wages, it may be said that if the industry can only survive when labour is exploited, the sooner it goes down the better. To expect the weak shoulders of the worker to prop up such an industry is inhuman and detrimental to the nation at large. An efficient management can surely make several other economies and a temporary difficulty of an industry in the international competition can be overcome by other means of protection and aid. But it should never look to sweatings of labour as a means of survival. Sweating of labour in the long run will hardly pay. All objections to the increase of wages must be brushed aside and the industrialists must be brought round to see the sense and justice of increasing wages. Only then the quality of the human factor will improve and this is indispensable to any real and substantial progress in industry. Not much can be accomplished by weaklings, invalids and illiterates.

28. Legal Minimum Wage : It is recognized in all advanced countries that it is desirable to maintain certain minimum standards of life and that every individual must be in a position to satisfy certain minimum needs. Thus minimum wage-fixing machinery has been set up to provide for a minimum wage particularly in "sweated" trades where the workers are hopelessly unorganized and are therefore in a helpless condition, and where through collective bargaining the interests of the workers cannot be properly safeguarded. The International Labour

Conference held in 1928 adopted a convention in this connection. The Royal Commission on Labour in India also suggested an investigation into the feasibility of setting up a minimum wage fixing machinery. The Bombay Textile Labour Enquiry Committee in 1937 was also asked to go into the question. No forward step in this direction has been taken so far in India. The Indian National Congress, as shown by its election manifesto, seemed pledged to the principle of a basic or minimum wage. The Cawnpore Labour Enquiry Committee appointed by the Congress Ministry did recommend a minimum wage of Rs. 15 p.m. Soon after that all the Congress Ministries gave up the reins of office, otherwise something would have been done in the matter by this time. No doubt that in view of the traditional tendency of the employers to evade Labour laws and the ignorance and illiteracy of the workers, there will be immense administrative difficulties and costs, yet every effort should be made to overcome these difficulties to ensure at least a minimum standard of life to the workers. The employers need not be unnecessarily apprehensive. The minimum fixed is generally such that even the weakest concern can pay. It is time that a minimum wage be provided, for such reforms are long overdue.

Dr. Ambedkar, the Labour Member of the Government of India, announced in the Labour Conference held in November, 1945 that a committee of two representatives of the workers and two of the employers would be formed to advise the Government in drafting legislation for minimum wages.

29. Wage Periods : There is no uniformity as regards the periods of wage payment. The period varies widely in different branches of the industry and in the same industry from one district to another and sometimes in the same concern, the period differs for different group of workers. It is very difficult, therefore, to generalize. Subject to these remarks it may be stated that the payment is made weekly in jute mills, coal mines, tea plantations, seasonal factories, oil mills, rice and flour mills, etc. At Ahmedabad the wage period is 14 days for weavers and 16 days for spinners and at Broach it is a fortnight. Monthly system of payment prevails in cotton mills in Bombay, Sholapur and several other centres, engineering workshops, dockyards and in mechanical supervisory and electrical departments of all industrial concerns. In sugar mills and tanneries, both monthly and fortnightly systems prevail. The Tata Company at Jamshedpur pays weekly to workers on daily rates and monthly to those on monthly rates. The casual labourer

is paid on the daily basis. In view of the fact that rent payments are made monthly and there is a practice of settling bills every month, the workers seem to prefer monthly to a shorter wage period, lest their earnings should be frittered away.

30. Holidays with Pay. With the exception of employees in Government factories, railway workshops or under the local bodies and the enlightened employers like General Industries, Ltd., Lever Bros., and Tatas, workers in India are not entitled to any holiday with pay. The leave rules of Tata Iron Steel Works, Jamshedpur, are very liberal. A monthly rated worker is entitled to one month's leave with full pay for every year of completed service and has the right to accumulate this leave; the daily rated worker who is paid monthly gets 5 days' casual leave and 14 days' privilege leave with pay and those paid weekly get 5 days' casual leave. After seven years' service, the monthly rated workers are entitled to six months' furlough on half pay or three months' with full pay. The subject of holidays with pay was discussed before the war in the Provincial Ministers' Conference and as a result of the discussions held there the Government of India prepared a Draft Bill to amend the Indian Factories Act, 1934. The Bill provides for a minimum of 7 days' holiday with pay for a year of service without the right to accumulate and half of the wages have to be paid in the beginning of holidays. Workers on holiday cannot take up any other job during the period. As for the customary holidays which the workers are now enjoying, the matter is left to the mutual consultations between the employers and their employees.

31. Cost of Living and Standard of Living. Bombay was the first Province which began publishing cost of living index numbers in 1921. They have been published since then in the Bombay Labour Gazette and have been much improved since 1937. They are now being published in almost every province but with varying base periods. Even in the same Province different base years have been adopted for different centres. The old index number in Bombay took 1914 as the base year and the new one 1934. The base year for the Punjab cost of living index numbers published for Lahore, Ludhiana, Sialkot and Rohtak is the average for the quinquennium ending 1935.

The Bombay index number can be considered as a fair indication of the general trends. The annual averages of the index numbers there since 1934 are: 1935—100, 1936—101, 1937—106, 1938—106, 1939—106, 1940—112, 1941—122, 1942 January—137 and June—152. It is obvious that the cost of living as compared with 1934 has increased more than 50 per

cent. Although dearness allowances have been sanctioned, yet it is very doubtful if they are enough to cover the increased cost of living for the workers engaged in the various branches of industry. The present war has undoubtedly proved beneficial to industrial labour in India. There is hardly any unemployment. But it cannot be seriously maintained that the standard of living has gone up; so steep has been rise of prices. Further, the masses are experiencing serious difficulties in procuring the necessaries of life. War, therefore, means a lot of hardship and suffering for the poor people.

Standard of Living.—In recent years almost in every province inquiries have been instituted in the working class family budgets, which throw a flood of light on the standard of living of the workers. The conclusions arrived at as the result of these inquiries generally conform to the Engel's Law of Consumption. A big slice of the workers' income is swallowed up by the most elementary necessities of life or by interest and debt instalment payments. Hardly anything is left for education and medical aid. Expenditure on cultural and recreational needs is almost nil. The figures reveal a very low standard of life indeed. Even prisoners get a more wholesome diet and show a better weight and health than the factory workers in India! His diet is meagre and unbalanced, clothing insufficient and shabby and his house a mere hovel. Of relaxation and recreation he can never dream. For him a worker's dwelling and environments in the West will simply be a paradise. A rich man's dog is definitely better fed than the honest factory hand. Our social and industrial structure does not treat them as human beings. But for illiteracy and ignorance, their limit of toleration would have reached long ago. In the International Labour Conference in 1929 Mr. N. M. Joshi said: "Just and humane conditions are still in India a far off ideal and if evolution is too slow, the attractions of revolution are great." We might add our own warning in the words of the poet:

O masters, lords and rulers in all lands,
How will the future reckon with this Man?
How answer his brute question in that hour
When whirlwinds of rebellion shake all shores?
How will it be with kingdoms and with kings—
With those who shaped him to the thing he is—
When the dumb terror shall rise to judge the world,
After the silence of the centuries?

(Edwin Markham).

The following table¹ shows the percentage distribution of expenditure under various heads for some working class families :—

Group	Bombay 1932-33	Nagpur 1927	Madras	Lahore (family budget of a turner)
Food	46.60	64.10	52.63	50%
Fruit and Light	7.11	9.62	6.67	
Clothing	7.75	10.70	4.50	8%
House Rent	12.81	10.92	11.14	6%
Miscellaneous (including interest and debt instalment)	25.73	13.66	25.06	

32. Labour under Provincial Autonomy : The years under Provincial Autonomy witnessed a marked growth of consciousness among Indian labour. The mass of the workers were enfranchised by the new Constitution. Election speeches of the principal party leaders seemed to promise labour almost a millennium. The Congress party in its manifesto laid down as its policy "to secure to the industrial workers a decent standard of living, hours of work and conditions of labour in conformity, as far as the economic conditions in the country permit, with international standards; suitable machinery for the settlement of disputes between employers and workmen, protection against the economic consequences of old age, sickness and unemployment; and the right of workers to form unions and to strive for the protection of their interests." The other parties, too, spoke almost in the same strain and the responsible Ministers amplified this policy in their speeches delivered on various occasions. For example, the Minister of Commerce and Labour in the Bengal Government in a statement in September, 1937, promised, among other things, labour exchanges, schemes of health and unemployment insurance, adequate housing, etc.

Thus the Indian labour came to entertain very high hopes of these popular ministries. They showed a singular lack of patience and as if to force the hands of Provincial Governments, the industrial labour launched a series of strikes in almost all important industrial provinces. There were more industrial disputes in the three years 1937-39 than in the seven preceding years. Committees of inquiry were appointed in Bombay, Bihar, U. P. and C. P. and a Court of Inquiry in Madras. Fortunately for labour, the industry had turned a bright corner and the employers were in a position to accept the recommendations of these bodies for higher wages and better conditions of work.

1. Indian Year-Book 1942-43, p. 512.

But whereas the strikes enabled workers to wring out some concessions from employers, they also led the Governments seriously to think out the ways and means of putting a brake on such activities. An Industrial Disputes Act was passed in Bombay in 1938 which sought to bridle the strike-going propensity. A conference of Prime Ministers held in Poona in 1939 decided to have uniform industrial disputes legislation in all provinces.

There was a spate of legislative activity regarding labour in all provinces. Maternity Benefits Acts were passed in U.P., Bengal and Sind. In C.P. legislation was contemplated regarding collection of statistics, registration of all factories and for relief to the unemployed and destitutes. Acts for regulating hours of work in shops and other commercial establishments were passed in almost all provinces. Had not the war intervened, much would have been done by way of ameliorating the conditions of industrial labour. These new Governments were decidedly more sympathetic to labour than those in the previous regimes. Being drawn from the people they could take more risks and adopt a bolder policy.

33. The World War II and Indian Labour. The World War II created conditions in many ways beneficial to Indian industrial labour. It afforded them an excellent opportunity to improve their status and conditions of employment.

But it was not an unmixed blessing. The declaration of war created a panic in the commodity markets and prices of foodstuffs and other necessities of life shot up. This meant a lowering of the real wages. In order to check exploitation of the *bona fide* consumers by the profiteers and hoarders, price control measures were adopted all over India. But this was not enough. In order to ensure to the workers the maintenance of their pre-war standards of living, dearness allowances were felt to be necessary. The workers clamoured for them. Their demands were conceded and in all industrial centres dearness allowances, either in the form of a lump sum, or a percentage of wages or on the sliding scale system fluctuating with the cost of living, were granted.

The dearness allowances did not seem to satisfy the workers, at any rate after some time. In Bombay and Ahmedabad there was a demand by the workers for participation in war profits. Accordingly a war bonus of 12 per cent of their earnings was sanctioned in 1941. Next year, there were a number of disputes in other parts of India on this question. The employers

anticipating further trouble saw the wisdom of granting war bonuses without delay.

For the efficient prosecution of war and maintenance of the essential services of national importance and to prevent the breakdown of the industrial machine, the Government had to be armed with certain powers. The National Service (Technical Personnel) Ordinance was issued in 1940 and was amended in January, 1942. According to this Ordinance any undertaking was to be declared as one of national importance. To supply personnel for such undertakings National Service Labour Tribunals were set up. The tribunals could ask any other factory to release any personnel for the "declared" factories. This personnel could not give up the employment without the permission of the Tribunal in that area nor could the employers discharge them without giving the Tribunal 15 days' notice. The factories from which the labourers were released were bound to reinstate them on their old terms when they were no longer wanted by the "essential service" factories. The Tribunals could also transfer such personnel from one "declared" factory to another. Another ordinance called the Essential Services Maintenance Ordinance, 1941, was issued to prevent any person employed in a service declared "essential" from leaving the area in which he was serving. We have already mentioned Rule 81-A of the Defence of India Rules which sought to ban strikes and lock-outs and provided for the settlement of industrial disputes.

Among other events of importance in the world of Indian labour, we might mention the institution of two training schemes. The Government of India started a scheme of intensive technical training for literate persons between the years of 17 and 40 to secure suitably trained personnel for the technical branches of Defence Services and ordnance and munition factories. Matriculate trainees were given a stipend of Rs. 27 p.m. and non-matriculates Rs. 22. In February, 1944, there were in India 270 training centres with a possible training capacity of over 28,000 skilled workers. The total number of trainees who passed out of these training centres up to 15th July, 1945 was 77,500, nearly. Another scheme was sponsored by Mr. Ernest Bevin, then British Minister of Labour, for the training of Indian workers in English factories and workshops. The training was confined to engineering occupations. By the end of May, 1944 about 643 trainees had been selected, out of these 460 were returned after completing training. There is no doubt that as the result of these schemes we will have an army of educated, intelligent

and highly skilled workers ready to play their part in the country's industrial development. They will be an asset of incalculable value. Those who returned from England are acquainted with the latest developments in the Trade Union Movement and methods and they may be expected to take up the role of industrial leaders.

A War Injuries (Compensation Insurance) Scheme was enforced in November 1943 under which the employees are obliged to pay compensation in respect of war injuries to workers covered by the Essential Services Ordinance 1941.

A Labour Investigation Committee had been appointed to collect information for the use of the Planning Committee so as to enable them to draw up a programme of social security for Indian Labour. The Central Government had prepared a uniform scheme of social security for industrial workers in India covering health insurance, maternity benefits and workmen's compensation. The Central Government will meet $\frac{2}{3}$ of the cost of administration for the first 5 years, $\frac{1}{3}$ of the cost of medical care is to be met by Provincial Governments and the remainder will be met from employers and workers' contributions.

34. Resettlement of Demobilized Soldiers: In its 26th session held at Philadelphia in 1944 the International Labour Conference considered, *inter alia*, the problems concerning the employment organization after the war. It laid down general rules for guidance of the governments. The Government of India decided to set up an integrated resettlement and re-employment organization to assist and advise both employers and the workers. A press note issued by the Labour Department, Government of India, on 8th February, 1945, explained the necessary details. It was intended to set up a net work employment exchanges, the number to go up to 71 by February, 1946. There will be a central exchange, nine regional exchanges and two special exchanges for naval and aircraft trades and 59 sub-regional exchanges, to each of which will be attached a number of Employment Information Bureaux. They will also have Employment Advisory Committees consisting of the representatives of employers and employees. A programme of technical training and vocational guidance will also be organized to equip the trainees for suitable employment in normal competition with the other workers. It is expected that this will meet the man-power requirements of the post-war development schemes.

CHAPTER XVI

TRANSPORT—RAILWAYS

1. Importance of Transport : "If agriculture and industry are the body and bones of a national organism, communications are its nerves."¹ Transport and industry are obviously inter-dependent. Even the agricultural resources of a country can neither be developed nor properly handled without adequate means of transport and communication. India is mainly an agricultural country ; 87 per cent of the people live in villages, while 66 per cent of them win their daily food from agricultural occupations. The development of the means of communication has brought about a change from subsistence economy to the cultivation of cash crops like cotton, jute, oilseeds and tobacco. Without means of transport these could be marketed neither inside nor outside the country.

India is a sub-continent with huge distances. In the past the natural configuration of the country would not allow it to be unified. Men and materials could not be moved easily and quickly from one point to another. There were a few trunk roads built by the rulers of the day—the Afghans or the Moghals—but they were too few to meet the needs of the people of those times. Even today, "more than half of the perishable produce of British India runs to waste on account of delay in reaching the market."² Huge areas are totally devoid of any lines of communication, and in some districts 70 to 80 per cent of the villages are entirely cut off from communication with the outside world during the monsoon season.

The history of civilization is the history of transport and communications. The road-makers carried aloft the torch of light and progress. They led and civilization followed. Homesteads, hamlets, villages, towns and cities followed in their wake one after the other. The track was transformed into a road, unmetalled at first and the metalled. Trade and commerce developed till we find then world as it is. The economic progress of man corresponds with the evolution of the means of transport. Not only goods are carried by their means, but the cultural, social and moral advancement of a country directly depends upon

them. They diffuse knowledge, remove prejudice and destroy ignorance.

As late as the middle of the nineteenth century, India had no roads worth the name. It was in the time of Lord Dalhousie that preliminary steps were taken in the pursuit of an active public works policy. We shall discuss under railways the nature of the policy followed—its selfishness and lack of planning. It is sufficient to remark here that the new means of communication resulted in the breaking down of the isolation of the villager who now started growing crops for the world market in place of the village market.

Means of transport in Indo-Pakistan are of four main kinds—(a) Railways, (b) Roads, (c) Waterways, (d) and Airways. We shall deal with each of them one by one.

2. Railways in India Compared With Other Important Countries. The total mileage of railways in Indo-Pakistan today is 41,000 miles. Before the outbreak of the war a good deal of the mileage was worked by private companies like the Bengal-Nagpur, South Indian, etc., but now with a few very minor exceptions, all the company railways have been purchased by the Government and almost cent. per cent. of them are State-owned. There are a few private lines like the Nizam Railway and Bikaner Railway owned by the Indian States. During the war the mileage has gone down by just a little more than 600 miles due to the closing down of some branch lines for material to be used for defence purposes.

Mileage figures do not give a correct idea of the sufficiency of railways in a country. They should be taken in relation to the area and population served. The following tables will give us a comparative idea of the position of India so far as railways are concerned.

TABLE I

Mileage of railways per 100 square miles of area.

U.S.A.	...	6.6	Canada	...	1.0
Union of South Africa	...	2.4	Europe excluding Russia	...	11.5
Argentina	...	2.0	Belgium	...	40.0
Australia and New Zealand	..	9	U. K.	...	20.0
Russia in Europe	...	1.5	Germany	...	20.0
			India and Pakistan	...	2.2

TABLE II

Mileage of railways per 100,000 of population.

Canada	...	455	U.S.A.	...	224
South Africa	...	164	U. K.	...	46
			India and Pakistan	...	11

Table I above tells us that the railway mileage of India does not compare unfavourably with that of other countries where agriculture predominates, e.g., Canada and Australia, but compared with industrial countries like Belgium and the U. K. India and Pakistan are but poorly served.

Table II is very revealing. India lags behind even agricultural countries like Canada, when the railway mileage is studied in relation to population. To compare India with a small highly industrialized country like Belgium would be meaningless. To have a correct perspective India should be compared with the U.S.A. The U.S.A. has almost twice the area of India. She has long distance, tall mountain ranges, deserts and huge rivers as India has. In spite of all these obstacles, the U.S.A. owns more than a quarter million of railway miles, while India can boast of a bare 41,000.¹ Roads would be a great help and might fill the gap to some extent, but even in these India is deficient. She needs more railways, wisely planned in co-ordination with the other means of transport like roads and waterways. Unnecessary duplication resulting in ruinous competition is deprecated and should be avoided at all costs.

3. Defects in the Growth of the Indian Railway Systems :

Indian railways were not planned in advance and have grown haphazardly. The first railroad was from Bombay to Kalyan, a distance of 33 miles (1849). The next two were from Calcutta to Raniganj (123 miles) and Madras to Arkonam (33 miles). Bombay then was not a commercially important place, nor were Calcutta and Madras. They became pre-eminent because of the railways. Had railways been constructed on a plan, they would not have connected unknown places like Arkonam, Kalyan and Raniganj, but would have linked up places like Dacca and Benares and opened up the rich agricultural areas of the country, like the U.P. Secondly, constructed from one point and opening out fan-wise, carrying all their materials with them for further extensions, they would have proved far less costly and proved less of a financial burden.

The railways ruined old towns and relegated centres of old industries into oblivion while creating new ones on an unco-ordinated basis. They destroyed the cohesion of the old economic system and did not help to evolve a sound one instead. The mainly created 'distributing centres' for foreign merchandise. It was only incidentally and much later on that they developed factory industries in seaport towns far away from the interior.

1. Report of the Royal Commission on Agriculture.

The result is that these industries have to import their labour-force from distant areas which leads to congested slums and labour troubles of various kinds. Even to-day the importance of these towns as distributing centres for foreign goods far outweighs their importance as industrial ones.

Dacca, Murshidabad and Madura were important industrial centres in old times. A sound railway system would have early linked them up and assisted them to grow and not transformed them into unknown non-entities, mainly used to distribute goods to people living near about. The Industrial Commission very correctly stated in 1918 : " Most of the 500,000 villages have not yet been touched by metalled road or railway," and things have not much improved since then. It is the system that has been at fault, not the railways as such.

4. Benefits from Railways : Railways removed the horrors of famines in India. The great mortality in human and animal life disappeared. Until recent famines were no longer famines of food but famines of money. The recent Bengal famine was an exception. During 1943 the whole machinery of distribution in Bengal broke down. Due to various causes discussed elsewhere the supplies were insufficient and reserves nil. Railways and steamships have linked the cultivators of India with markets throughout the world.² The agricultural wealth of the country is exported abroad in return for foreign manufactured goods. The standard of living of the people has changed for the better only moderately, but the fault lies with the immense increase in population. The methods of cultivation over a large portion of the country are still as old as Methoselah, but for a glimmer of improvement in areas served by the railways. The railways not only disseminate knowledge but are also responsible for a greater use of improved seeds and manures and cheap transport of implements of a better type.

Railways have tended " to break up the existing social organization " of the country.³ Caste prejudice has largely disappeared and the bonds of joint family system broken. But alongside these benefits, the Panchayat system has also gone into the limbo of the past and litigation increased manifold, but we must learn to take the good with the bad.

The mobility of labourer has increased. In the tea-plantation of Assam, the factories in Bombay and Calcutta, workers

1. The Report of the Royal Commission on Agriculture, p. 367.

2. Ibid.

3. Dr. Vera Anstey—The Economic Development of India, p. 145.

from all over the country are found working shoulder to shoulder. If the various castes do not yet love each other, they have realized that they can live only by each other's sufferance and the credit largely goes to the railways for this wholesome change. The Brahmin with the caste-marks painted across his forehead travels to Benares in a third class railway compartment sitting cheek by jowl with a low caste shudra whose shadow falling on him would have created a fine rumpus fifty years back!

Quicker means of communication have greatly increased the amenities of life in urban areas. Fruit from Quetta, fish from Karachi, mangoes from Bombay, are selling all over the country, Perishable articles like eggs and milk travel long distances overnight to reach their consumers the next day.

It must also be borne in mind that the central administration of a vast country like India is possible only because of railways. They have given the country internal security and external safety.

5. History of the Development of Railways in India: It easily falls into a number of prominent periods which will be dealt with one by one :—

(i) *The Old Guarantee System, 1849-1869.* Lord Dalhousie's famous minute recommending railways for India to promote British trade and commerce was accepted by the Court of Directors. England was "calling aloud for raw materials like cotton"¹ and markets to dispose of her manufactures like cloth. India also would gain similar "social and commercial advantages."² By the end of 1859 eight companies had been formed under the Guarantee System. The Government agreed to supply land free to these companies and guaranteed a minimum interest of 5 per cent. on the capital outlay. The companies in return were to sell the railways to the State after 25 years or 50 years, if the Government so desired. They had to pay to the Government one-half of the surplus profits, if any, after paying themselves the guaranteed interest and to allow the Government general control over management, expenditure, etc.

This system met with universal condemnation. The progress was slow due to the lack of engineers and skilled labourers. It is also difficult to imagine that English money could not seek investment in India without a guarantee and that, too, at a rate so exorbitant as 5 per cent. Sure of a solid return for their

1. Lord Dalhousie—Railway Minute, 20th April, 1853.

2. Ibid,

money, the Managers and Directors did nothing to economise and the Government had to pay no less than two and a quarter million pounds¹ of the tax-payer's money during this period.

The system proved too costly and burdensome. Nor could the Government keep effective control. They tried to attract capital by promising subsidies for every mile of line and bridge built but failed and in 1869 made up their mind to go in for constructing railways themselves. Under this system 4,255 miles of railway were built.

(ii) *State Construction of Railways, 1869-1879.*—For ten years the Government did not make any fresh contracts with any company and found four crores of rupees a year for railway construction. By the end of 1879 the total mileage reached 8,000. Out of this 6,000 miles had been built by the companies at a cost of £98 million and 2,000 miles by the Government at less than one-fourth the cost of the companies.

The Strachey (Famine) Commission reported in the year 1880 that India must have an additional 5,000 miles of railways to ensure safety against famines. The Government was not able to find money for this increase and had to go back to the old system.

(iii) *The New Guarantee System, 1879-1900.*—Heavy expenditure in the relief of two consecutive famines in Bihar and the Deccan and the fall in the value of the rupee compelled the Government to give up construction of railways and once again to have recourse to contracts with companies. They were, however, wiser by experience and made better bargains now. They guaranteed $3\frac{1}{2}$ per cent. interest on the portion of the capital found by companies, reserving for themselves three-fourths of the surplus profits, if any, and the power of terminating the contract at the end of 25 years or after further intervals of 10 years on payment of the capital at charge to them. The total mileage of railways laid down in this period was 4,000.

(iv) *Pre-war Period, 1900-1914.*—Although the main railway lines were complete by 1900, yet branch lines were urgently needed to supplement them. In 1907, the Mackay Committee stressed the need for a steady annual outlay of capital on railways, and the amount they suggested was 18 crores a year. The Government could not keep to the letter of the recommendation but did actually invest 92 crores of rupees in six years from 1908-09 to 1913-14. During this period more than 10,000 miles of branch and feeder

lines were laid. The total railway mileage in India in 1914 was more than 34,000 and total investment about 500 crores of rupees.

(v) *The War-Period, 1914-1920.*—Neither rolling stock nor engines could be imported during the war years. New programme of construction had to be postponed indefinitely to the future. Even the lines in working could not be maintained. The strain of carrying men and materials for the army was too heavy to cope with. Some of the staff, rails and rolling stock had to be despatched to East Africa and Mesopotamia for conduct of war. The railway system utterly broke down. Many bridges grew too rotten to bear trains safely. Engines, not worth even yard duty, were still upon the line. Goods wagons were used to carry passengers on branch lines. Goods lay rotting in the godowns for weeks before they could be loaded into wagons. The Acworth Committee wrote in 1921, "There are many miles of rails, hundreds of engines, and thousands of wagons whose rightful date for renewal is long overpast." Naturally there was a clamorous demand by the public for the abolition of British domiciled company system in favour of the State management of railways.

(vi) *Railways since 1921.*—In November 1920, an expert committee was appointed under the presidentship of Sir William Acworth, a British Railway expert. The committee submitted its report in 1921. The contract with one of the most important companies (E.I.R.) was over in 1919 and had been renewed for five years. Whether the contract was to be further renewed or the company bought out, was one of the important questions to be considered by the committee. A large number of witnesses were examined and the pros and cons of State vs. Company management carefully gone into.

6. Argument for and against State Management in India : All Government departments are a slave to routine and red-tapism. They have neither despatch nor initiative. They are more swayed by political considerations than those of efficiency in their promotions. Railways are a commercial proposition and need business methods; dash and enterprise at one time, conservatism and caution at another. Such qualities are rare in bureaucrats, trained in juggling with files and in postponing decisions. Railway budget being a votable charge, railway policy would depend more or less on party politics and could not be expected to be uniform and continuous. Other countries like the U.S.A. and the U.K. have no doubt efficient, privately-owned and operated companies, but they belong to the country and are strictly regulated and controlled. Railways in U.K. are being nationalized by Attlee's Labour Government.

The Acworth Committee were not unanimous in their findings for State management in India. The President and four members recommended State management, and the other five members were in favour of management by companies domiciled in India. The President's side won with his casting vote.

In spite of the apparently strong case enunciated against State management, we find that, conditions being different in India from other countries, the arguments do not hold water. Most of the capital involved in railways belongs to the State. To hand over such vast property (represented by 808 crores of rupees in 1945) to companies with headquarters in England is unthinkable. India had enough of them in the early days of railway development. The system of "dyarchy" or divided responsibility can never make for efficiency. The companies have no stake in the financial success of railways. They have no incentive to economise. Further, the Government will not give them a freehand to undertake new enterprises or instal changes without previous sanction. With the State as dominating partner, without powers of initiative, even Indian domiciled companies were bound to be a failure. There was no attraction for the few, really capable Indian entrepreneurs to undertake to run railways when they were sure to be browbeaten and hampered at every step by the executive.

Further, Indian sentiment is in favour of State management of railways. Money invested belongs to India—Indian opinion in the matter should be final. Indian belief, based on experience, is that in railways there is no room for Indians at the top, unless the State manages them. This is not an argument that can be lightly dismissed. In addition, all profits would go into the central exchequer and help to reduce the burden on the taxpayer. Company management in India was prone to discriminate in favour of foreign imports in their rates. This was detrimental to Indian industrial interests. Such discrimination, it is held, is not possible under State management, as the State is more amenable to public criticism. Grievances of business men and poor class passengers can be more easily ventilated and redressed with State at the helm of affairs.

Co-ordination of the means of transport is more feasible with railways owned and managed by the State. It will look on roads, railways and waterways with an open mind and try to develop every one of them as it deserves. Company railways in the past cruelly undercut traffic on water, both coastal and inland. The Government of India, although not giving up in principle their preference for company management, took over the East Indian

Railway and the Great Indian Peninsular Railway in 1925, the Burma Railway in 1929 and the South Punjab Railway in 1930.

Today India and Pakistan manage the following railways: (1) B.B. & C.I., (2) G.I.P., (3) N.W.R., (4) E.I.R., (5) Bengal and North-Western (now called Oudh and Tirhoot) (6) Bengal and Assam, (7) Rohilkhand and Kumaon, now a part of the Oudh and Tirhoot Railway, (8) Madras and South Marhatta and (9) South Indian Railways purchased in 1944-45 (10) and the Bengal-Nagpur Railway purchased in 1943-44.

The Indian railways are now almost 100 per cent. State owned and they are 99 $\frac{3}{4}$ per cent. operated by Indians and Pakistanis. They are an asset of which both can be proud.

Railways belonging to the State but managed by companies are very small and minor ones like the Dhone Kurnool, Bezvada Railway, etc. There are some railway lines like the Bikaner State Railway and the Nizam State Railway owned by Indian States. These also are not very important.

7. Railways during the War, 1939-45: The railways during the recent war were much better equipped to meet the emergency than during the last war. For the first two years of the war, "it seemed they could discharge most of the demands made on them." But in 1941-42 military traffic grew enormously while alternative means of transport contracted to an embarrassing extent".¹ At the same time rolling stock and rails had to be requisitioned to meet the requirements of Defence while a good bit of the skilled personnel had to be sacrificed for military and ancillary services. The rising tempo of war resulted in serious hardship and inconvenience for civilian traffic.

Due to the entry of Japan in war, coastal traffic was greatly reduced and the whole pressure fell on the railways, specially the work of transporting coal. "The movement of coal accounted for about 40 per cent. of the total freight tons in the past year" (1941-42).² Hence the number of wagons left for "public" supply was very inadequate. Replacements of worn-out stock were difficult. "But owing to the enterprise of Messrs. Tatas, a plant which was started up in November 1941 will, after a trial period, be able to meet all Indian demands"³ of wheels, tyres and axles which were ordinarily imported from abroad. This is a matter for congratulations, indeed.

1. Sir Andrew Clow—Railway Budget speech, February 1943, p. 1.

2. Ibid.

3. Ibid, p. 5.

Some of the railway workshops were given over to the production of munitions in which more than 80,000 skilled technicians were employed.

On July 9, 1942, the War Transport Board was created and placed in charge of Sir Edward Benthall. The Railway Department was also handed over to him. While presenting the budget for 1943-44, he remarked, "Since last year, not only has the tide of battle lapped our shores and thrown upon the railways much traffic which would normally have been sea-borne, but the railways have had to face an organized, malicious and determined internal attack designed primarily to put them out of action, and on top of all this, a series of almost unprecedented floods and cyclones." The Transport Board had to solve three main problems:—

(a) The problem of carrying military and essential services by rail.

(b) The problem of organizing alternative means of transport.

(c) The problem of creating and organizing administrative machinery for the above.

Accordingly, a Central Transport Organization with Provincial Regional Transport Boards was created in February 1942. Its duty was to relieve traffic congestion on railways by co-ordinating all forms of alternative traffic. The job has not been any easy one. It has been a source of headache both to those who are in charge of it and to those who use transport. Traffic has been diverted where possible from railways to coastal craft, both steamers and country boats. Wherever there are suitable roads, traffic is diverted to them.

During the past three years (1941-44) railway transport has been rationalized. All non-essential traffic has been discontinued and a system of priorities introduced. Special arrangements for Mela traffic (like the Kumbh Mela) have been cancelled and cheap fares and concessions of all kinds withdrawn. Passenger trains have been much curtailed resulting in extreme congestion in this trains. Passengers have been seen hanging on to foot-boards, riding on the tops of trains and even on the buffers between the bogeys. In spite of the railway propaganda of "Travel only when you must," according to Sir Edward Benthall, railways have had to carry 20 million more passengers a month or 6,50,000 a day. The increase has not been uniform over the

1. Sir E. Benthall, "Indian Review" for January, 1945: "Transport in Wartime."

whole of India ; in the Punjab it had been 100% while in Howrah (Calcutta) only 40% Military movement had increased no less than 27 times.

Railways have tried their best to see that each wagon travels fully loaded and is never idle. The rate for parcels has been increased and an extra charge of 4 annas per rupee imposed on all consignments of less than a wagon load.

In 1942 India was divided into three zones for imported goods which were landed in the port nearest to their place of destination.

All this was possible, "by steady improvements in operating services and constant attention to maintenance."¹ The daily task of each locomotive was increased, and the wagon's average load further enhanced. It will have to be admitted that in spite of the difficult circumstances, "the railways succeeded in maintaining the life of the country, whilst meeting the demands of the military and of every essential industry"² including the transport of foodstuffs to deficit areas.

8. Railway Finances : (i) From 1858 to 1898 railways in India were a losing concern. The total loss incurred during these years was about 58 crores of rupees. These consistent annual deficits were mainly the result of uneconomic construction, inefficiency of guarantee companies, lack of sufficient traffic and presence of strategic lines like the N. W. R. (in Pakistan).

After 1898 the deficit changed into a surplus except for the years 1908 and 1921. These surpluses continued till 1930 and were due to the new irrigation works in the Punjab and Sind, increase in traffic brought about by the economic development of the country, better financial bargains with the companies and a great rise in the foreign trade of the country.

(ii) *The Separation of Railway Finances, 1924-30.*—In addition to important changes in administration brought about by the recommendations of the Acworth Committee in 1922 the railway finances were separated from the general finances from 1924-25. Cogent reasons were advanced for this revolutionary departure from the old practice.

(a) So long as the railways remained a part of the general finances, their fortunes varied with those of the Central Government. The financial position of the Government reflected itself

1. Sir Andrew Clow—Budget speech, 1942-43.

2. Sir Edward Benthall—Budget speech, 1943-44.

in that of the railways. In these circumstances, there could not be a continuity in railway policy and business methods could not be pursued in their working. In good years there was waste, and in bad ones, starvation of essential services. Railways were a commercial proposition and could not prosper when no reserves were maintained for them, and in good years the whole of their surplus was utilized for general purposes.

(b) Even as long ago as 1924, the railway budget was a huge affair, the gross receipts being above 100 crores of rupees. A good year for the railways made the Central Budget prosperous and *vice versa*. The prosperity of the railways depended on the monsoon. Ample and timely rainfall reflected itself in abundant traffic, both passenger and goods. Thus the Central Budget was nothing short of "a gamble in monsoon".

The separation of the railway finances from the general finances would enable the railways to be run on a commercial basis and would relieve the general budget of the most fluctuating and incalculable factor which made it a gamble.

A Convention was adopted by the Central Assembly in Sept., 1924, that the railways were to make a fixed annual contribution of one per cent on the total capital at charge on commercial lines plus one-fifth of the surplus profits in that year. The interest on the capital at charge of the strategic lines (like the Khyber Railway) and any loss in working them was to be debited to the general revenues. In addition to the above payments, the railway revenues had to pay to the Central Government one-third of the excess over three crores of any surplus remaining to them.

Contributions to the Depreciation Fund were to be deducted as a part of the expense. After making all payments what was left over was to be credited to the Railway Reserve Fund. On this, too, the Central Government had the first lien if their contribution of one per cent interest was not paid in any year. The *Railway Budget for 1944-45* would illustrate the point :—

		In lakhs of rupees	
Heads of Revenue		Heads of Expenditure	
A—STATE RAILWAYS		A—STATE RAILWAYS	
I Commercial Lines		I Commercial Lines	
Gross Receipts	... 189,37	Interest—	
		(a) On Government capital charge	... 27,27
		(b) On capital contributed by companies	... 33
Total Gross Receipts	... 189,37		
Deduct—			
(a) Working Expenses	... 109,66		
(b) Surplus profits paid to Indian States and Railway Companies	... 73		
(c) Payment to worked lines	... 1,87		
Net Receipts	... 77,11	Total interest (Commercial lines)	... 27,60
II Strategic Lines		II Strategic Lines	
Gross Receipts	... 2,63	Interest on capital at charge	17,14
Deduct—			
Working Expenses	... 2,77		
Net Receipts	... —14		
Total Net Receipts			
Commercial & Strategic Lines	... 76,97	Total Interest	... 28,74
B—SUBSIDISED COMPANIES		B—SUBSIDISED COMPANIES	
Government share of profits	10	Land and subsidy	... 4
G—RAILWAY MISCELLANEOUS RECEIPTS		C—MISCELLANEOUS RAILWAY EXPENDITURE	
(a) Interest on all Depreciation Fund balances	... 3,27	Commercial and strategic lines	... 73
(b) Interest on Reserve Fund balances	... 1,20		
(c) Dividends, etc., on branch line investments	... 18		
Total Receipts	... 81,72		
Transfers from Railway Reserve Fund	... Nil	D—PAYMENTS TO GENERAL REVENUES	
Grand Total	... 81,72	Contribution	31,37
		Payment of area contribution	Nil
		E—TRANSFER TO RAILWAY RESERVE FUND	20,84
		F—REFUNDS OF SUMS WITHDRAWN FROM THE RLY. DEPRECIATION FUND	Nil
		Grand Total	81,72

The railways contributed to the general revenues in 7 years from 1924-1925 to 1930-31 a total of Rs. 41,65 lakhs of rupees, but in the last year, 1930-31, the interest charges were higher than the net revenue by above Rs. 5 crores. Hence the contribution to the general revenues was paid out of the railway reserves.

From 1930-31 to 1936-37, the interest charges always exceeded the net revenue. In 1937-38 net revenue improved and was higher than the interest charges by Rs. 2,76 lakhs and this was the contribution made to the general revenues.

After the break-out of the last war, the railway revenue improved all of a sudden due to increased traffic, destruction of road and coastal competition and heavy transport of army men and material. The railways wiped away all the arrears due from them to the general revenues as well as paid back the loans from the Depreciation Fund. It will be seen that the railways contributed no less than 20 crores of rupees a year to the Central Government in 1941-42 and 1942-43 and made a further contribution of the remarkable amount of about Rs. 38 crores in 1943-44. Thus, since the beginning of the war to the end of the fiscal year 1945-46, the general revenues will have gained from the railways the magnificent sum of Rs. 158 crores.

The Moratorium.—According to the Convention adopted in the Assembly in September, 1924, the first charge on the railway surplus was the Depreciation Fund. During the years 1929-30 to 1936-37, the railways not only spent away the whole of the Reserve Fund but borrowed 31 crores of rupees from the Depreciation Fund. Thus the first surpluses after 1936-37 should have gone to the Depreciation Fund and anything, if left over, should have been contributed to the general reserves. In 1937, the Railway Member proposed a *moratorium* for three years for the repayment of this liability. The *moratorium* was later extended to 1942 and then for another year. By 1943, however, the arrears in contribution to the Central Government as well as loans from the Depreciation Fund (paid in the years 1940-41, 1941-42, and 1942-43) were all cleared.

Budgets for 1942-43 and 1943-44.—Proposals for a new Convention.

In his budget speech in 1942, Sir Andrew Clow anticipated a big surplus in 1942-43. He informed the House that the provisions of the old Convention could not be allowed to take their ordinary course, for that would mean denying such relief to the tax-payer as he could legitimately ask for. The *moratorium* for one year would allow the surplus to be divided between the railways and the general revenues on the same principle as before.

In February 1943, Sir Edward Benthall proved that the Separation Convention of 1924 had not achieved its objective of the prosperity of railways. He remarked that by 1939-40 no less than 18 crores of rupees had been withdrawn from the Reserve, the Contribution to the general revenues had fallen short of 36

crores of rupees, and loans totalling over 30 crores of rupees had been borrowed from the Depreciation Fund to meet the interest charges. Railway finances were in a most perilous state. The Convention had also failed in war, as a *moratorium* had to be declared time after time in order to give an extra share of the surpluses to the general revenues.

The War Transport Member, therefore, proposed that the terms of the Convention relating to contribution and division of surplus between the Railways and the Central Budget should be set aside; but the new Convention should be adopted later, after due consideration and discussion, while during the war the policy followed should be flexible. The object of the proposal was that the general revenues should get large contributions and Railway Reserve Fund should be substantially provided to meet post-war reconstruction. He stressed the point that the railways should not be in the thoroughly exhausted condition they were in, after the Great War of 1914; otherwise, the old lesson would have been learnt in vain.

Budget for 1944-45.—Sir Edward Benthall proposed two new impositions (1) 25% increase in railway fares and (2) 20% surcharge on carriage of coal for the year and argued that Rs. 10 crores accruing from increased passenger fares would be earmarked for providing amenities for lower class passengers. This increase would help in bringing about a little deflation as well as reduce pressure on railways. The Railway Member argued that there was urgent need for the creation of greater reserves

(a) for abnormal needs for repairs after war and for writing down stocks purchased at inflated prices.

(b) and for continuing high wages and coal bills after the war when net railway receipts would probably go down.

Mr. L. P. Misra was entrusted with the planning for post-war developments and reconstruction. It was good that the then Railway Board concentrated on the construction of locomotives and boilers in India. There were schemes for improved handling of post-war goods, parcels and passenger traffic and participation of railways in road services. In the meantime a good many heavy engines, broad-gauge and metre-gauge locomotives were received in 1943-44 and orders for more locomotives and wagons from abroad placed in 1944-45.

The proposal for the increase of railway fares was dropped by the Transport Member as there was a storm of indignation in the country. It was argued that the Railways could not reasonably increase fares and raise the cost of living in the face of the vast surpluses they were earning.

Budget for 1945-46.—The results of the working of Railways for three years are given in next page in the form of a table—

TABLE IV
Financial Budgets of Railways Since 1930-31

Mileage	36,070	36,510	36,508	36,257	36,253	36,310	36,127	33,848	33,808	32,785	33,739	33,123	33,095	33,032	33,032	33,031
year.	1930-31	31-32	32-33	33-34	34-35	35-36	36-37	37-38	38-39	39-40	40-41	41-42	42-43	43-44	44-45	45-46
FINAL ACCOUNTS.	FINAL ACCOUNTS.															
	In lakhs of rupees															
Gross Traffic Receipts	1,00,14	91,70	89,29	91,76	95,48	96,62	1,01,2	1,00,46	99,62	1,02,73	1,17,58	1,35,17	1,55,48	1,85,43	2,14,30	2,20,00
Deduct working expenses including Depreciation and Share paid to worked lines	72,50	67,84	67,71	68,19	69,27	69,49	68,91	68,39	69,18	69,93	71,29	79,55	84,26	1,08,84	1,47,49	1,59,87
Net Traffic Receipts	27,64	23,86	21,58	23,57	26,21	26,53	32,11	32,07	30,44	32,80	46,29	55,62	71,22	76,69	66,81	60,13
Net Miscellaneous Receipts.	—11	1	1,10	1,05	53	86	—9	—5	23	64	85	90	1,88	2,78	3,01	3,77
Total Net Revenue	27,53	23,07	22,68	24,62	26,74	27,39	32,02	32,02	30,67	33,44	47,14	56,52	73,10	79,49	69,82	63,98
Deduct Interest charges	34,72	33,01	32,91	32,58	31,80	31,39	30,81	29,26	29,30	29,11	28,68	28,44	28,03	28,53	27,81	27,39
Surplus	—5,19,	—9,20—	10,23—	7,95—	5,06—	4,00	1,21	2,76	1,37	4,33	18,46	28,08	45,07	50,94	42,01	36,51
Contribution to General revenues	5,74	...	...	...	...	...	...	2,76	1,37	4,33	12,16	20,17	20,13	37,64	32	32
Transferred to Railway Reserve	...	—10,93—	2,95	...	...	...	...	...	...	...	6,30	7,91	8,86	13,20	10,01	4,51

Note: Burma Railways are included till 1936-37.

In lakhs of Rs.

Particulars	Final Accounts	Revised Estimates	Budget Estimates
	1943-44	1944-45	1945-46
Gross Traffic Receipts	185.43	214.30	220.00
Total Working Expenses	108.84	147.49	159.87
Net Traffic Receipts	76.59	66.81	60.13
Net Miscellaneous Receipts	2.78	3.01	3.77
Total Net Revenue	79.37	69.82	63.90
Less Interest Charges	28.53	27.39	27.39
Surplus	50.84	42.01	36.51

The year 1944-45 was a successful year for the railways. Warwork had been done efficiently. No less than 1400 miles of sidings had been constructed. At places lines had been doubled and quadrupled for conveniences of military transport.

The year's working too disclosed a great increase in receipts. The increase in coaching (mainly passengers) traffic was considerably higher than in goods. Some ten million more passengers were carried every month than in 1943-44. Upper and inter-class traffic showed a larger increase, due to more money being available. The publicity campaign to restrict travel had proved fruitless and police had to be called in to prevent travelling on foot-boards.

There was an equally great increase in expenses. One cause of increased expenses was the relief in cash and kind provided to the railway staff. As many as 689 Grain Shops were functioning in the year 1944, selling 1,300,000 maunds of grain per month. In addition there were officers' shops supplying miscellaneous articles of daily use at controlled rates. The cost of this elaborate system of relief came to Rs. 20 crores.

Another cause of the steep rise in expenses was the result of a special war-time arrangement under which a major portion of expenditure of a capital nature which had hitherto been debited to "Capital" and "Depreciation Fund" accounts was to be debited from 1944-45 onwards to current revenues. Thus Rs. 66 crores would be debited to working expenses as below :—

Rs. 14 crores—1944-45.

Rs. 30 crores—1945-46.

Rs. 12 crores—1946-47.

To enable the railways to finance this special liability with due regard to the needs of both the general revenues and railways, it was decided to stabilise the railway's contribution to the general revenues at Rs. 32 crores in 1944-45 and 1945-46 (see Table IV) instead of dividing the surplus in the proportion of 3-1

in terms of the resolutions passed by the Central Assembly in March, 1943.¹

These unusual steps were taken to give effective protection to the Depreciation Reserve Fund and Capital Account and thus avoid the mistakes in railway finances made in the first war and commented upon by the Ackworth Committee. Sir Edward Benthall finished his Budget speech in the Assembly, on February, 1945, with the words, "I commend this somewhat *unorthodox budget*" to the House in the firm belief that, if it is adopted, the railways will enter the post-war period, with their duty to the country faithfully performed, in a fit state technically to cope with the expansion of trade and industry which we all look for, and, if the present policy is continued, in a fit state financially to give a fair chance to the governments of the future."

(iii) *The Pope Committee 1932*.—The Great Depression of 1930 found the railways unprepared. They could not only not pay the Contribution to the general revenues; they could not even pay the interest due on the Capital at charge from 1931 onwards. In 1932, the services of a British Railway expert, Mr. Pope, were obtained to suggest economies. He recommended "job analysis" to be carried out on the main railways to effect economies. He further suggested publicity of railway activity everywhere in India and abroad, to attract tourists to places of historical, religious, architectural and natural beauty-interest served by the railways and to provide all kinds of amenities for travellers. To increase goods traffic a scientific study of exports and imports and rates and fares was proposed.

At Mr. Pope's advice many other steps were taken to improve the finances of the railways during the years of depression. For instance, in areas of great motor competition, cheap single and week-end return tickets were introduced; street collection and delivery of parcels was arranged in big cities and freight rates for goods were reduced. Special "pilgrim trains" to tour to places of religious worship for different communities in India were run while special concessions were offered to sports teams and parties of tourists. The railways also pooled their resources in locomotives and mechanical repairs. In fact every effort was made to improve matters.

(iv) *The Wedgewood Committee, 1937*.—Sir Otto Niemeyer, the financial expert, recommended the distribution of half the income-tax realized in a year among Provinces in India on the

1. Finance and Currency Report for 1944-45.

2. *Italics ours.*

condition that the railways earned enough profits to pay their contribution to the general revenues. Hence the need for a thorough overhaul of the working of Indian railways on the eve of the introduction of the new Constitution was urgent. Accordingly a Committee was appointed in 1936 with Sir Ralph L. Wedgwood, Chief General Manager, London and North-Eastern Railway, as chairman with two other members. The Committee submitted its report in 1937. Its main recommendations were that—

- (a) The railways should stop paying their contribution to the general revenues and be made fully solvent.
- (b) The Depreciation and General Reserve Funds of the railways should be increased until they were adequate enough for all purposes.
- (c) Proper steps should be taken to meet the road competition, e.g., speeding up in trains, introduction of bus services, etc.
- (d) More service should be got out of the rolling stock for which more European mechanical engineering staff should be engaged.
- (e) Closer contact should be maintained with the Press and traders and business men in the country. For this purpose an information bureau should be organized.

The various suggestions of Mr. Pope to effect economy were stressed and reiterated.

There was a storm of indignation in India at the Committee's recommendation of further Europeanizing the staff and the stoppage of contributions to the general revenues. These were rejected *in toto* by the Assembly and Sir Sultan Ahmad, the Railway Member, assured the House that there would be no tampering with the contributions to the general revenues and no discontinuation of the policy of steady Indianization of railway services.

9. Railway Rates : In the early days of railway construction in India the Government did not interfere with the Companies in the matter of rates, apart from the fixation of maximum and minimum charges. Each company had its own terms of contract with the Secretary of State. Hence there was a great diversity of rates in the country. In 1887 the Government laid down some principles for the fixation of rates on railways—

- (a) The state was to fix the maxima and minima charges, but was to make no further interference as that would hamper trade.
- (b) The state was to be on the look-out that no undue preference was shown by the railways to particular persons or bodies.

Attempts were made to bring about a uniformity in the classification of goods for freight charges but they did not succeed. Discrimination in favour of foreign imports and European businessmen was persistently complained of by Indian interests. Such complaints were voiced frequently in the Legislative Council as well as before different Committees like the Industrial and Fiscal Commissions and the Acworth Committee.

Till recently Indian commodities were divided into 16 classes and maximum and minimum charges fixed for their transport. The railways could not infringe these charges without previous sanction of the Railway Board.

TABLE V

Class.	Maxima.	Minima.	Class.	Maxima.	Minima.
1	... 0.38		3	... 0.58	
2	... 0.42		4	... 0.62	
2-A	... 0.46	0.10	4-A	... 0.67	
2-B	... 0.50		4-B	... 0.72	
2-C	... 0.54		5	... 0.77	
			6	... 0.83	
			6-A	... 0.89	
			7	... 0.96	
			8	... 1.04	
			9	... 1.25	
			10	... 1.87	

The fixation of minimum charges is a unique feature of Indian railways. No other country has it. This is because the State, having guaranteed a certain amount of interest to the companies, did not want their interests to suffer from reckless competition.

The charges on Indian railways are not at all high and compare favourably with the charges on railways in other countries.

In centimes¹TABLE² VI

Country.	Passenger Kilometer.	Average Receipt per ton Kilometer.
Italy	4.14	4.56
Germany	2.95	4.32
Great Britain	2.39	4.83
France	2.41	4.49
South Africa ... ..	...	3.26
Canada	3.98	1.84
U.S.A.	3.69	1.84
Argentine Republic	2.02	2.57
India and Pakistan	1.25	2.50
Japan	1.00	1.39

The rates on Indian railways are lower than those in all other countries except Japan in the above table. Discrimination against Indian manufacturing interests was one of those reasons which led to a demand for State management in preference to Company management.

Another complaint against the railways has been that the system of fixing rates in India is "discontinuous". If goods travel on two lines, the rate is not calculated on the through-distance, but on the distance travelled over each line separately.

The Acworth Committee recommended a Railway Rates Tribunal, similar to the one created in the United Kingdom by the Railway Act of 1921 on the ground that there was a great discontent in India due to the alleged discriminatory rates, but the Government did not see their way to implement the proposal. They argued that railways in the U.K. were a private concern while the State was directly interested in them in India. The Government felt afraid that the decisions of an independent Rates Tribunal might interfere with their financial interests. They created only a Railway Advisory Committee in 1926 with very limited powers. This body has neither been very useful nor popular. The Government of India Act of 1935 has perpetuated this Committee, and it cannot be said when an independent Tribunal will replace it.

1. Centime is one-hundredth of a franc. 175 francs could purchase £1.

2. Report of the Wedgewood Committee, p. 11.

CHAPTER XVII

TRANSPORT—ROADS

1. Roads in India compared with those in other Countries :

Roads in India were not built on a comprehensive plan. They were built for military reasons as were the old Roman roads. They were mainly trunk roads and the earliest of these was built by Sher Shah. The main roads today connect Peshawar, Calcutta, Delhi, Bombay and Madras. They were constructed not for economic reasons, but for strategic purposes. They were "marching roads"—to march soldiers to the point of danger. This is the reason why they were put in "the charge of military boards, one for each presidency" till 1855 when they were given over to the Public Works Department to manage.¹

Today Indo-Pakistan possesses 65,000 miles of metalled roads, with another 20,000, on which motor vehicles can run and 2,30,000 of unmetalled (kutchha) roads. The total mileage of 300,000 is too little for a country of India's size and population. The following table will show how inadequately India is equipped with roads as compared to other countries:—

TABLE I

Country	Road miles per square mile of area	Road miles per 100,000 of population
Japan	3.00	684
U.K.	2.00	277
France	1.89	1,392
Germany	1.19	565
U.S.A.	1.00	2,853
India and Pakistan	0.48	142

Roads in India, metalled and unmetalled, are too few, both in regard to area and population. The worst served areas in this respect are Sind, Rajputana, East Bengal, Assam, Orissa, etc., for obvious reasons. Either the areas are too arid and thinly populated or too rainy and jungly with unbridgable gorges and streams.

2. Defects on the Road System: After 1855, when the roads came in charge of the P.W.D., the influence of railways on the construction of roads began to make itself felt. As the rail-

1. Report of the Royal Commission on Agriculture.

way system extended, it became increasingly necessary to build roads to feed the railways rather than to compete with them.¹ In spite of this, however, "30 per cent. of the metalled roads in India are parallel to railways and 48 per cent of railways have metalled roads parallel with them or within 10 miles."² Such is the tragedy of roads in India which were built not with an eye to the economic advancement of the country. The Government of India were more anxious to build railways in the last century; in 70 years no less than 37,000 miles of railways were laid (a fine achievement) while roads were generally neglected till recently. This has been in spite of the fact that highway is the first link in the production and distribution of agricultural commodities. Unless there are roads to link the rural areas with markets, the barest subsistence cultivation will be carried on by the people. Lands will lie fallow and perishable produce will run to waste. Improved roads could convert all this waste into wealth but senseless competition with railways should be avoided at all costs in any future construction of roads.

3. Economic Advantages of Roads: The main advantage offered by road transport is its flexibility. Motor lorries and buses can easily collect and distribute loads from door to door and pick up and put down passengers anywhere needed. Railways are fixed to their tracks and cannot undertake this kind of work. A road transport company can easily try routes and ply its vehicles where it gets better custom. It does not need much capital to start a concern of this type nor does it need much traffic to earn fair dividends.

Rural areas cannot possibly be served by railways as the distances are small and traffic insufficient. What is needed is a network of roads to reach the railheads. These roads will not only serve the villages, but will supplement the railways and add to their income.

In 1939, the total number of motor vehicles in India was 1,60,000 of which 40,000 were heavy buses and lorries.³ This is nothing as compared with other countries. The following table will give a comparative idea:—

NUMBER OF PERSONS PER MOTOR VEHICLE IN SOME COUNTRIES

U.S.A.—4.	U.K.—25.	Japan—640.	India—2,430.
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It must not, however, be forgotten that India has a large number of bullock-carts, "about 6 million in all, of which 4

1. Report on Agriculture, p. 370.

2. Railway Enquiry (Wedgewood Committee) Report.

3. Review of the Trade of India, 1938-39, p. 101.

million use roads.”¹ They are very useful for small distances. If they were equipped with pneumatic tyres (with subsidized help from the Governments) it would appreciably reduce the period of time a journey takes, increase the carrying capacity of the carts, as well as save the roads from immense wear and tear.

With better roads the transport cost saved would amount to some crores of rupees a year, as the difference in the cost of operating a motor vehicle on a good and a bad (kutchra) road ranges between 18 pies to 24 pies per mile.²

In addition to the beneficial effects on agriculture, improved roads and quicker transport would help in the decentralization of industry. This is an urgent requirement taking in view the vulnerability of seaports from foreign air and sea attacks, and the great congestion in labourers' residential areas in big cities.

Roads would quicken the mental and moral advancement of the country, by bringing the villager to school and college and creating in him the will to improve. It should be remembered that contact with the outer world is in itself an education. A villager after a visit to a neighbouring town is no less than a Socrates for knowledge and wisdom ! It is desire for and knowledge of better things that act as incentive to a rise in the standard of living. There will be an improvement in the health of the villager and his animals, as they will have easier access to doctor and hospital. Postal services will be enlarged in the country and they in their turn will encourage thrift and saving.

The system of transport is unbalanced at the present time. The Road Development Committee stated in 1928 : “ It is indeed somewhat incongruous that there should be 40,000 miles of railways in India while the total mileage of surfaced roads in British India is only 59,000.” Even today the same incongruity persists. With more roads to link up the centres of production with those of consumption, the villager shall have greater security in life and property. Good roads will reduce the strain on draught animals and make them more efficient for the cultivation of land.

4. Road Finance : The construction of roads depends on the nature of the soil and configuration of land. The severity of the sun and rain and the possibility of floods and seepage of water have an important bearing on the cost of construction. Where labour is cheap, kutchra roads should not cost much. Free corporate labour of villagers might be utilized for building local

1. Dr. Sen—Reconstruction of India, p. 402.

2. The Hon'ble Mr. R. H. Parker—“ Commerce,” December 1942.

roads, the material and tools needed being supplied by local Government authorities. At other places machines like a Caterpillar Tractor and a Triple Roller at an initial cost of some thousands of rupees would be able to maintain kutchra roads at a very low cost. Most of the roads in Pakistan are kutchra and would remain so for long years to come. They are the responsibility of the District Board authorities in India who are poor and ill-equipped. To improve and enlarge roads they need generous subsidies from the Provincial and Pakistan Governments.

Road Development Committee, 1927.—This Committee consisted of 14 members and was presided over by Mr. Jayakar. The Committee stated that roads in India were becoming a national interest and as such should be the responsibility of the Centre. The income that resulted from roads in the shape of custom and excise duties on petrol and motor vehicles went to the Central revenues. The additional petrol duty also benefited them. It was, therefore, reasonable that the Central Government should not only build arterial roads but maintain them and release local and provincial funds for local roads.

The Committee also suggested that railway funds should help in the construction and maintenance of roads which would feed and supplement them. The Agricultural Commission suggested loans for road development. The Road Development Committee did not favour heavy loans for roads as they were afraid that these loans might prove an incubus for other nation-building activities of equal or greater importance. The Central Legislature approved of loans for road-building in 1934 on the recommendation of the Rail Road Conference.

The Road Committee recommended an increased duty of 2 as. per gallon on all petrol. The Government agreed to the proposal and a Convention was accordingly adopted in the Assembly in 1930. The additional duty was imposed in the first instance for 5 years. The proceeds from this duty were to be accumulated in the Road Fund and grants made out of it annually to different Provinces in proportion to their consumption of petrol while 10 per cent of the duty was to be kept in reserve for special grants for expensive works. A Standing Committee for Roads was to be constituted every year out of the members of the Central Legislature for advising Government on all matters concerning roads as well as recommending grants to be made to Provinces.

The Road Fund or Account was put on a permanent basis in 1934. Usually a crore and a half of rupees were credited to the Fund in a year. Allotments were made to different Provinces

every year. The figures presented by the consulting engineer to the Government of India on 31st July, 1943, showed that schemes to the total value of Rs. 14½ crores were approved against the road fund allocation since its inception, and that about Rs. 11 crores actually spent. In 1942-43 the total expenditure was 1½ crores of rupees.

As the railways were facing severe competition from motor traffic, the Legislative Assembly passed a resolution in 1937 that if any province failed to put into operation steps recommended by the Governor-General to control and regulate motor traffic, the share in the income-tax of that province might be resumed by the Governor-General. The same would be the fate of the province's share if the Provincial Government delayed unreasonably long in spending it. There is, however, not much fear for a clash over this between the Central and Provincial Governments as Sir Otto Niemeyer has made the prosperity of railways an essential condition for distribution of income-tax among the provinces.

5. Rail-Road Competition: In 1932, two officers, Mr. Mitchell, Road Engineer to the Government of India, and Mr. Kirkness, an officer of the Railway Board, were asked to make an enquiry into the rail-road competition. They submitted their report in 1933 and recommended a stricter regulation of motor traffic as one of the measures to remove the competition. They also suggested the creation of a Central Advisory Board of Communications. Accordingly in 1935 a Transport Advisory Council consisting of the Ministers in charge of roads in the provinces was formed. A new Department of Communications was also created as had been recommended by the Acworth Committee and later by the Road Development Committee. The new department was put in charge of railways, roads, waterways, aviation and posts and telegraphs.

In 1937, the Wedgewood Committee also considered the rail-road competition problem and recommended protection of railways against the unfair competition of roads by controlling, supervising and licensing motor vehicles. They also stressed the importance of railways participating in road traffic.

The Motor Vehicles Act was passed in 1939. Its objects were the control and co-ordination of road traffic. Regional Transport Authorities were to be constituted in each province to control motor vehicles which were to run under permit, to carry no more than the prescribed number of passengers or load, to run within fixed speed limits, and to work not more than 9

hours a day or 54 hours a week. After June, 1943, all motor vehicles were to be insured compulsorily for third party risks. Any infringements of the above regulations were visited with big fines. This Act is a very important piece of legislation and codifies regulations for the safety and comfort of passengers and goods. It has been deservedly styled the 'highway code' for India.

CHAPTER XVIII

TRANSPORT—WATERWAYS AND AIRWAYS

1. Waterways: Transport on water has a long history behind it. The Phoenicians and Romans carried on trade for thousands of years in oared galleys. Indians and Arabs distinguished themselves as carriers and traders in old times. Water has always formed a great highway for trade. It is cheap; it needs no special expenditure on docks and quays.

Indian transport is of two main kinds :—(a) River transport and (b) Coastal or Marine transport.

2. (a) River Transport: This is perhaps the oldest and cheapest kind of transport. It does not need a permanent way. It does without signals and stations. Navigation canals, artificially constructed, stand in a need of locks and lifts, but they are nowhere so expensive as railways. Water transport is useful for the carriage of bulky and heavy commodities of low grade like coal, timber, raw ores, etc. Cost of transportation of these on water is very low indeed.

Water transport suffers from the drawback of slowness of speed. Configuration of the country also interferes with it. For instance, the rivers in South India are no good for navigation purposes except in their deltaic stage. In one part of the year they are mere trickles of water, and in another roaring torrents. They move through difficult country which makes them unfit for any kind of transport. The rivers in Pakistan, however, are navigable for hundreds of miles inland.

In Bengal and Assam, the Ganges and its tributaries, and the Brahmaputra are navigable for thousands of miles. In Pakistan the Indus and the Chenab are fine streams, capable of carrying boats and ships for long distances. The Punjab has a remarkable chain of irrigation canals but they are not fit for navigation purposes as the two activities do not combine well together.

3. Comparison with Foreign Countries: Many countries in the world have a well developed system of inland water transport. The U. S. A. and Canada have fine systems of lakes and rivers linked together by navigation canals. The lowlands of

North France, Belgium and Holland have a fine network of canals linking up the navigable rivers. It is possible to travel from the Mediterranean Sea to the English Channel or to Bordeaux by water. In France no dues of any kind are charged for use of canals. Germany too has a thoroughly planned system of navigation canals used for carrying large quantities of bulky goods. England's rivers are navigable, but her canals have been ruined by the competition of her railways.

Indian rivers in the north have sufficient water throughout the year to carry heavy boats. They were largely used for transporting passengers and goods in Hindu and Muslim times. In British times they have been neglected, because the State is vitally interested in railways. The competition from railways has reduced transport on rivers to the barest minimum. There is ample scope for the development of both railways and waterways in a vast country like India. The Industrial Commission pointed out in 1918 that "the vested interests of the railways have prevented waterways in India from receiving the attention that has been given to them in other large countries with satisfactory results." Many examples of the unfair competition offered by railways to waterways were laid before the Acworth Committee who suggested an enquiry into the matter.

With the heavy pressure laid on railways by the recent war emergency, the War Transport Department was trying to develop alternative means of transport. It is much to be desired that this attention should be continued after the cessation of hostilities and measures adopted

- (a) to improve the navigability of rivers,
- (b) to construct new artificial waterways,
- (c) and to progressively use steamers, tugs and power-driven barges in addition to country craft.

It will have to be admitted, however, that the main obstacle in the way of the development of Indian waterways is their own condition which has in cases deteriorated due to the opening of irrigation works. Hence efforts should be concentrated mainly on the improvement of the waterways themselves.

4. (b) Marine (Coastal) Transport: Present Condition:

There is keen and uncontrolled competition between the railways and the coastal traffic. On Karachi side, a good deal of traffic has been diverted to the sea, due to its low cost. But the railways now (pre-war) offer special competitive rates between ports. This policy of the railways has been the target of critical questions several times in Central Legislature.

With a vast seaboard of 4,000 miles in length and an immense foreign trade of Rs 600 crores a year in normal times, it is a pity that India possesses only 0.24 per cent. of the ocean-going ships of the world when the U. K., the U. S. A. and Japan have a share of 25.90, 17.29, and 8.11 per cent. each. In 1939 India had a hopelessly small number of deep-sea ships, no more than 30, with a total gross tonnage of 1,50,000. This was mainly due to the fact that the Government of India had always offered a cold shoulder to the growth of Indian shipping. The Government found it impossible to render any help as they felt afraid of British shipping interests suffering from Indian competition.

Even the coastal trade is mainly in the hands of foreign countries specially the U. K. The Indian share is very small, barely 25 per cent. All countries that can boast of a position in the maritime countries of the world have had to reserve their coastal trade against foreign shipping. British Navigation Acts were in operation not so long ago. The U. S. A., Japan and Australia are no exception in this matter.

5. Efforts to Improve Conditions. The Indian Mercantile Marine Committee in vain recommended the reservation of coastal waters to Indian shipping in 1923. Mr. S. N. Haji's Coastal Reservation Bill could not become law nor did his Bill for the Abolition of Deferred Rebates meet with any better fate. Sir Abdul Halim Ghaznavi's Coastal Traffic Bill, which did not discriminate between British and Indian shipping, but only wanted to regulate unfair competition was also shelved as being 'unnecessary and likely to promote a mania for shipping companies.' Before the war the Government felt anxious at the competition offered by Japanese and German ships in Indian waters and were proposing to legislate against them when the war intervened.

The recommendations of the Mercantile Marine Committee made with a view to create and encourage an Indian marine were turned down by the Government except the provision of a training ship (Dufferin) at Bombay for training Indian cadets. Since then another such ship has been put into service at Karachi while a dockyard has been equipped at Vizagapatam for building steel ships of medium size (about 10,000 tons). The industry has been promoted by Mr. Walchand Hirachand of Bombay with Indian capital and labour.

6. War and the Future. During the recent war, the Royal British Navy having its hands full in the other theatres of war,

the vulnerability of India's position was glaringly revealed. Millions were starving in Bengal and India had no adequate shipping of her own to transport food supplies for them and had to let them starve. The Government of India have realized the gravity of the situation and have pledged themselves to a policy of assisting in the development of an Indian mercantile marine. The emergency has, however, passed but it is hoped that the Government will see its way to translate its promises into deeds in the post-war era. We urgently need an adequate share in the carrying trade,—both in the home waters as well as in far oceans wherever our goods travel. It would be but fair if we were given a fair share of the appropriated Japanese shipping as well as the trades of which it is dispossessed. It is hoped that something more will also be done to develop our marine by putting into effect some practical schemes like the reservation of coastal waters or the purchase of some flourishing British steamship companies and putting them in charge of Indo-Pakistan Directors and Managers. This will serve another useful purpose—the utilization of a portion of the sterling assets accumulated to the credit of India and Pakistan in London.

It is evident that more ships will need more sea-port facilities. Apart from the five or six major ports India owns only a few minor ones which are open roadsteads where ships have to anchor two miles or more from the coast. Some of them will have to be modernized and improved so as to serve fair-sized ships. Such a task should, however, be undertaken only after a thorough investigation by experts into their physical possibilities and hinterland advantages.

7. Civil Aviation in India.—A few exhibition flights were given in India before World War I at different places. The war demonstrated the fine geographical position of India as a link in airways between Europe, the Far East and Australia. India is now the flying centre of the East and Karachi is the main air-route junction where five important air lines meet.

While civil aviation was being encouraged in Europe and the U.S.A. by subsidies and other methods, the Government of India was inert in the matter and provided only a few landing grounds for foreign aviators—English, Dutch and French.

In 1929, Karachi was linked with London by a regular air service of the Imperial Airways, Ltd. The service was extended to Singapore in 1933 via Allahabad, Calcutta and Rangoon.

Today there are several important Indian lines operating on the skyways of Indo-Pakistan

The Indian National Airways Ltd., 1933.

The Tata Airways Ltd., 1932.

The Air Services of India Ltd., 1937.

Pak Air Ltd., Karachi, and some other Pakistan Air Services.

They form the feeder services to the Imperial Airways Ltd., and operate from Karachi to Madras, Bombay, Delhi, Chittagong etc., and from Lahore to Dacca and Calcutta etc. The progress made by the past internal services is shown by the following table.

TABLE

Year	<i>Indian Internal Air Services</i>		Passengers carried	Mails tons
	Mileage of route	Miles flown in thousands		
1933	...	5,180	155	105
1935	...	6,395	553	43.3
1937	...	7,500	1,178	61.0
1938	...	6,700	2,104	244.6

A glance at the following table will show the position of India in comparison with some other countries.

Year	<i>Mileage of Routes in Thousands</i>				India ¹
	U.S.A.	France	Germany	U.K.	
1938	71	41	33	25	7

India's airways have developed without a plan like her other forms of transport and most of the important industrial towns are out of their orbit. The whole business is in a rudimentary stage and is not self-supporting. Some Indian States have been helping air services with monetary aid in order to make them pass through their territory.

Before the war there was no military training scheme in India. The Indian air progress, therefore, whatever it was, came from the activities of the Flying Club movement. By 1938, there were no less than 10 flying clubs in India organised through the efforts of the Aero Club of India and Burma Ltd. with a membership of more than 1,500. Air training is very costly. Our Government has recently provided a few scholarships for advanced aviation training. It has also granted subsidies to the Flying Clubs in Pakistan.

The Government of India during the war at last awoke to the urgent need for training Indian pilots for taking their share in fighting against the Axis. But India did not have the

1. Burma excluded.

privilege of sending pilots to Canada to be trained under the British Empire air training scheme.

The war gave India an opportunity to create a number of air squadrons daily increasing in number. A good deal of propaganda was carried on in colleges in India to secure recruits of the right physique and qualifications. The Viceroy (Lord Linlithgow) in his valedictory speech to both Houses of Legislature at Delhi on 2nd August, 1943, said, "The Indian air force is expanding rapidly into a formidable weapon." It can be seen from the plans of the Government of India that the strength of the Indian Air Force is not going to be reduced now that the war is over and rightly so. A strong air arm and a big navy are urgently needed for the political safety of Pakistan also in the future.

8. The Future of Civil Aviation. Movement was afoot in the U. K. to press the British Government to take action in the present to adopt a concerted British Empire scheme to provide a virile, up-to-date and highly organised air system after the war and to create an Air Board with representatives from the Dominions and India. Mr. Wakefield, M.P., stated at the Conservative Party's annual conference that, "just as evidence is growing we might win the war through air power, so we might lose the peace through lack of it." The importance of civil aviation for the U.K. can be epitomised in the phrase, "In future we must be not only a sea-faring race but also a great air-faring race." The importance of civil aviation for Pakistan in the future is no less.

The Federation of Indian Chambers of Commerce some time ago passed resolutions pertinent to the point in question. They wanted that the Government of India should see that in the internal air services the ownership, control and management of such air concerns as were licensed or given subsidies, should be Indian; that Indian interests were not sacrificed for the development of international aviation; that adequate facilities were provided for the training of Indian pilots; and that India was not excluded in any future Empire training schemes as she was in the Canada scheme.

Another step in the right direction was the erection of a full-sized factory equipped with all the latest machinery from the U.S.A. to manufacture aeroplanes at Bangalore as a result of Mr. Walchand Hirachand's enterprise. This was meant to provide not only employment for some thousands of skilled workers and technicians but also to stimulate the growing aluminium and other ancillary industries in the country. The

factory was taken over by the Government for military reasons and was used to repair plans and assemble parts. So long as provision was not made for the production of aero-engines in the country, Government planning for the development of civil aviation in India remained incomplete in one very essential matter. Nationalist opinion could not be satisfied merely with the construction of aerodromes without aircraft.

Ground engineering is another important desideratum. It includes the provision of all kinds of facilities as meteorological and wireless stations, night landing facilities, and cement runways with expert ground-engineer service.

A yellow paper had been published by the Government giving their plans for post-war civil aviation. The air services were proposed to be divided into:—

- (1) International services,
- (2) Trunk Lines,
- and (3) Feeder Lines.

India had ratified the International Convention on Civil Aviation through Sir G. S. Bajpai, her Agent-General in U.S.A. The international services will be detailed by the International Civil Aviation Board and will link up with the Indian services at Karachi and Calcutta. Pakistan also will have its voice and play its legitimate part in these plans.

The Government of India will take the initiative in the planning and organisation of the Indian Air Trunk Services which will cover 10,500 miles involving a flight of $7\frac{1}{2}$ million miles a year, through the maintenance of one return service a day between important points in India. In addition to passengers the services will carry mail and freight, the object being to bring flying to the middle classes to make it popular and earn profits. These lines will be planned with the consultation of native States.

The Feeder lines will be left entirely to private enterprise but no air transport service could be operated without a license from a Licensing Board which will carefully examine the financial and technical aspects of every scheme.

State aid may be given in rare cases when the operator reaches a better standard of efficiency than the one laid down but cannot reach the 'target revenue' in spite of his efforts to reach the "target operation costs". The principle is unexceptionable.

Schemes have been prepared for the training of technical personnel for aviation including pilots, engineers, radio-operators and groundmen.

The Civil Aviation plan also envisages aerodromes spread over the length and breadth of India and Pakistan. Out of these 91 are already in existence and only 20 more are to be constructed. Seventy-eight will be equipped with night flying facilities. It has been decided to construct these aerodromes so as to serve

46 cities with a population of over a lakh,	
29 towns ,, ,, of over 51,000,	
and 36 ,, ,, ,, of less than 51,000.	

The only drawback in the Government plan—and this drawback is a material one—was that the Government was not planning for the construction of aero-engines and planes in India without which aviation cannot achieve the desired success. Thus it is clear that out of the *three* essentials for the successful running of air transport, i.e.

- (i) a sufficient number of airplanes
- (ii) properly trained groundmen and flight personnel
- and (iii) a sufficient number of well-equipped airfields, the Government did not want to pursue the first in order to help the British industry. The Government have been pursuing exactly the same policy towards the establishment of motor-car industry in India until very recently.

CHAPTER XIX

CO-ORDINATION OF TRANSPORT SERVICES

1. Meaning and Forms : Co-ordination means the adjustment of different kinds of transport facilities to public needs. Voluntary co-ordination is impossible, nationalization of all transport services as in Russia is equally impossible with the present form of government and it may not suit India. The only alternative left to be adopted then is statutory regulation of transport services in the country, so that they do not overlap each other and work in their own economic spheres. Unfortunately the transport services in India have not developed on any comprehensive plan, so it is not an easy job to fix them to their spheres. Any future construction of railways, roads or airways should be planned beforehand.

2. Efforts at Co-ordination : In order to stop the ruinous competition against railways the Central Government enacted the Motor Vehicles Act to regulate and control motor traffic. The terms of the Act have been given in chapter XXI. The provinces had adopted a *laissez faire* policy which gave India an unorganized and inefficient type of road transport. This policy, as the Wedgewood Committee remarked, was giving India 'the worst of both worlds—unprosperous railways and inadequate roads.' It is not certain yet whether the Motor Vehicles Act will protect the railways against unfair competition. If not, further steps will have to be taken to strive for the 'unattainable'¹ of perfect co-ordination.

The Motor Vehicles Act is expected to eliminate the unfair competition against railways and incidentally to safeguard the life and property of the passengers and make road-travelling more comfortable. At the recommendations of the Wedgewood Committee the railways started participating in road transport and opened motor out-agencies at railway terminals to hill stations where they did not go. Speeding up of trains, running of frequent diesel coaches, and provision of amenities for lower-class passengers would help the railways to meet road competition. Cutting down of expenses by retrenchment of unnecessary

1. Wedgewood Railway Enquiry Committee.

posts, progressive nationalization and lower grades of pay in the higher cadres would also assist.

3. Spheres for Different Transport Services : So far nothing has been done to define the spheres of different forms of transport. The achievement of lasting success is impossible without that. Railways can carry bulky goods and long-distance passengers at cheap rates while motor vehicles will transport goods of a perishable nature and passengers for short distances. As far as possible motor transport should be made to confine itself to running on feeder roads ; otherwise, as Sir Guthrie Russel said, "If motor lorries are allowed to carry the highest rated goods, or to skim the cream of the traffic, the result must be a raising of other rates" Regional transport authorities in different provinces should issue licences on the zonal system, so that public vehicles run only on prescribed roads.

The War Transport Department is bound to be followed by a Communications Department in the near future. This department will look after the development and co-ordination of all forms of transport. Railways are no doubt a central charge while roads are a provincial one. In the long run their interests are the same, though they might seem to clash occasionally. The Niemeyer award bound them fairly closely together.

It is not suggested that railways should be bolstered up but they are a valuable national asset with an investment of over Rs. 800 crores. They must not only pay the interest on capital at charge and make the usual contribution to the general revenues but should also provide all possible conveniences to passengers. If they are involved in deficits the additional burden will fall on the tax-payers. It would be stupid to cut one's nose to spite one's face, and allow cut-throat competition between roads and railways and have the latter ruined. It is essential to make them complementary to avoid waste. There is an urgent need to expand roads as has been proved already but the new construction should help railways rather than compete with them.

In India there has not been a great development of civil aviation so far. In the future, however, competition between airways and railways over long-distance-higher-class traffic can be easily visualized. It is possible that railways will seek air-powers in India and Pakistan. Anyway it would be wise to effect voluntary co-ordination beforehand by entering into agreements rather than try to lock the stable after the horse is stolen.

On the water there is not overmuch competition with the railways, except in the coastal sphere. It would be useful to

define spheres here too so that unnecessary waste is eliminated. Transport of particular kinds of commodities and traffic should be left to the steamships which should not be allowed to encroach on railway preserves.

4. The Zoning Scheme of Co-ordination: To meet Indo-Pak growing needs of agriculture and industry a systematic development of transport lines is needed but this can be done only after the problem of co-ordination has been tackled successfully.

To solve this problem the Government of India have promulgated a Rail-Road co-ordination scheme "which aims at unified control of transport and its development" with a view to prevent the pre-war unregulated cut-throat competition, to stop rate-wars between roads and railways, and to eschew unnecessary duplication of services.

The method adopted is the formation of joint companies in which the road operators, railways and the Provincial Governments will be shareholders in the following proportions:—

(1) Existing operator	25%.
(2) Promoter	10%.
(3) Railways	30%.
and (4) Provincial Government	85%.

This scheme has been already given effect to by the Bombay Government. The province has been divided into 11 zones, each to be operated by a limited company. Several other schemes of the same kind have been put into operation in different parts of the country *e.g.*, Amraoti-Badnera Bus Services Ltd., Nagpur Bus Services Ltd., etc.

This kind of zoning scheme will certainly reduce wasteful competition and bring about Rail-Road co-ordination and has many points to commend it. The fear that it might smother the healthy development of road traffic and bring about domination of road by railways is largely misplaced. An alternative suggestion put forward by the Indian Roads and Transport Development Association also deserves consideration. The Association recommends the revision of railway rate structure so as to increase the rates on heavy traffic and reduce those on light goods. This will certainly enable railways to compete against motor traffic to a certain extent but will not be effective enough to meet the situation alone.

CHAPTER XX

THE TRADE

The trade of India and Pakistan is of four main kinds, (a) Internal or Inland, (b) Coastal, (c) External or Foreign, and (d) Entrepot or Re-exports of merchandise imported from foreign countries.

A. INLAND TRADE

1. Importance of Internal Trade for India : Ever since the methods of industry, agriculture and transport were revolutionised in Europe, trade between different parts of the world has grown enormously. The Industrial Revolution originated in Great Britain and then spread over to the countries of Europe. Goods were manufactured on a large scale and markets found for them. Thus the raw materials and foodstuffs of Asia and America were imported in huge quantities and manufactures exported to them in exchange. The standard and wealth of the European countries advanced rapidly while the agricultural and raw-material producing countries in the tropics were left behind, although their lot also improved a little.¹

To a large extent the same mutual interdependence persists today. Countries like the United Kingdom and Japan import raw materials from abroad and with their machinery, trained labour and power resources convert them into manufactured goods and export them back at a vast profit to themselves. Hence, external trade is the mainstay of their prosperity. Without raw materials and foodstuffs from abroad they will not only lose their pre-eminent position in the world, but their huge populations will very likely starve. Theirs is thus an unnatural, a lopsided economy.

The case of India and Pakistan is different. They resemble the U.S.A. in this respect. Our internal trade is many times larger than our external trade. Even if we exclude the movement of goods inside the provinces and states, we find that the volume of our internal trade is several times larger than the sea-borne trade.¹ Indo-Pakistan is a sub-continent. She has a huge population and therefore an immense, self-contained market. Her natural resources are vast and varied. It is then reasonable to expect

1. Prof. K. T. Shah—Trade, Tariffs and Transport.

that with the improvement of our means of communication and progress of large-scale industries our internal trade should steadily grow in volume.

Unfortunately, the internal trade of India has not received the same attention as her external trade. For one thing the Government was more interested in propagating external trade. The Indian railway rates and policy also favoured the latter at the expense of the former. Secondly, India until recently, was a debtor country. She had to have a favourable balance of trade amounting to more than 50 crores of rupees a year.

Recently the attention of Indian Economists has been dwelling to a larger extent on the internal trade of the country. Prof. K. T. Shah has laid great stress on the trade between regional units on a National Plan with rationalized production and distribution all over the country.¹ Prof. Naidu says that "a large country like India with its varied potentialities can afford to develop her internal trade and give the external trade a definitely minor place."² Prof. Ramaswamy puts forward planning of food, raw material and manufactures on the basis of a "zonal system".³ "India has a home market for local producers and manufacturers which, if properly developed, would reduce our dependence on foreign markets to the minimum,"⁴ says Prof. Sen.

The present position of inland trade is clear from the following table which gives the quantum of some important commodities moving internally by rail and river.

TABLE I
In lakhs of maunds

	1936-37	1939-40	1940-41	1941-42	1942-43
Coal and coke ...	40,00	50,00	—	—	—
Raw cotton ...	2,92	2,07	2,09	2,06	1,77
Cotton piecegoods ...	1,05	1,13	1,28	1,14	1,04
Grains, pulses, etc. ...	12,92	14,34	13,02	13,50	10,47
Hides and skins ...	32	34	30	36	35
Jute, Raw ...	3,82	3,28	2,81	2,60	1,81
Jute, manuf. ...	51	55	59	70	1,29
Iron and Steel manuf. ...	4,00	4,19	—	—	—
Oil Seeds ...	4,38	4,38	3,94	4,35	3,61
Sugar, including gur, etc....	4,04	2,90	3,89	3,91	3,17
Total ...	73,96	83,18	27,92	28,62	23,51

1. K. T. Shah—Principles of Planning, pp. 91-92.

2. Industrial Problems of India edited by P. C. Jain, p. 123.

3. Ramaswamy—Economic Problems of India.

4. Sen—Economic Reconstruction of India, p. 364.

The percentage increase in 1939-40 is 12, taking the 1936-37 figures as base. These figures cannot be taken as conclusive evidence, because they represent only a few of the vast number of articles that enter into the inland trade of India. Moreover, these figures do not take into account the trade within every block; they relate only to the trade between the 22 blocks into which India has been divided for the purposes of inland trade statistics. Movements of goods for army purposes have not been taken into account.

The gross earnings and traffic on railways perhaps gives a more satisfactory idea of the increase in internal trade.

TABLE II

Year		Mileage ¹	Gross Traffic Receipts (In crores of Rs.)	Total wagons ² loaded (‘000 omitted)
1938-39	...	33,808	94	7,225
1939-40	...	33,785	98	7,509
1940-41	...	33,739	112	7,589
1941-42	...	33,173	129	7,498
1942-43	...	33,179	154	6,553
1943-44	...	33,179	150	

There has been a decline in the number of wagons loaded from 1941-42 which cannot be attributed to a decrease in economic activity in the country, but is due to the fact that a large number of wagons loaded on special military trains for military traffic are not included in these figures. An additional reason for this decline is the larger amount of merchandise carried by each wagon. This is obvious from the following table :—

Year.	Total tons goods traffic carried on class I Rlys. (000's)	Total net Ton Miles traversed by goods traffic on class I Rlys. (000's)
1938-39	115,213	21,878
1939-40	121,082	23,192
1940-41	123,305	24,987
1941-42	130,043	27,811
1942-43	125,637	27,802

It will be seen that the total tonnage of goods traffic has been increasing.

2. Future of Internal Trade : Although complete statistics are not available, yet a fairly accurate opinion can be formed about the increasing importance of our internal trade. With

1. The mileage of Burma railways has been excluded from 1936-37.

2. Review of Trade of India, p. 61 (1941-44).

further 'planned' development in the means of transport and as a result of improved industrialization internal trade is bound to grow rapidly. The immediate effect of the policy of protection, halting as it is, would be a decrease in the imports and consequently an increase in the total internal trade of both countries. The necessity of having a favourable balance of trade shall also disappear to a fair extent now after the war. We have not only paid away our entire sterling debt, but have a huge amount of sterling assets to our credit in London. This foreshadows a greater utilization of raw materials in our countries and large purchases of capital goods from abroad. It is, therefore, essential that our internal trade should be properly planned and developed in the future.

B. COASTAL TRADE

3. Importance : India is like "a pendant amongst the continents."¹ It has a long coast line of 4,000 miles. The number of natural harbours, deep enough for the use of sea-going steamers, is unfortunately small. Bombay and Karachi are the only two good natural harbours. Calcutta is 70 miles from the sea on the River Hooghly but it can be reached by large ocean steamers. Madras harbour is "entirely artificial",² but it serves the purpose of trading vessels of all kinds. There are a few more seaports of lesser importance in India like Cochin, Vizagapatam and Tuticorn. In E. Pakistan Chittagong is becoming important.

There was a time when Muslim India built excellent sailing vessels and carried goods to countries both in the east and west. Now her exports and imports are all carried in foreign bottoms and she has very few indigenous navigation companies. The few ships possessed by companies like the Scindia Steam Navigation Co. are used only for coasting trade and even here "the share of Indians amounts to only 25 per cent."³ The Government of India never extended a helping hand to the indigenous shipping industry till recently and that only because of the exigencies of the war.

Mr. S. N. Haji and others tried a number of times to move the Government to a reservation of the coastal trade to Indian interests, but their efforts always ended in failure. Due to rate-wars and the "deferred rebate system"⁴ British shipping has a

1. S. N. Haji—Shipping Industry.

2. Dudley Stamp—The World, p. 292.

3. Jathar and Beri—Indian Economics, Vol. II, p. 215.

4. A rebate of 10 per cent. is usually allowed in freight charges to persons and companies for loyalty in using one company's ships. It is only old, well-established companies with large reserves that can afford to give such concessions.

partial monopoly and has not been successfully so far. The war has at last convinced the Government of the urgent necessity of having an Indian navy and a dockyard has been constructed at Vizagapatam to construct ships of about 10,000 tons.

Bombay and Calcutta, Karachi and Chittagong account for about 84 per cent. of our total foreign and coastal trade. They export the produce of their "hinterland". Chittagong export jute, raw and manufactured, Calcutta coal; Karachi wheat and raw cotton and Bombay mainly cotton manufactures. The coasting trade of India amounted to Rs. 87 crores in 1937-38. The trade with Burma was previously treated as coasting trade, but since the separation of Burma from India, trade with her is classed as external trade.

The transport of goods by water is cheaper than by rail. Hence it needs special encouragement. To develop it fully, Governments should undertake a regular construction programme to provide port facilities and train the mercantile marine. Rate wars and rebates should be made illegal and the whole problem carefully considered and future action planned.

C.—EXTERNAL TRADE

4. An Historical Review. (i) *Trade in Hindu Times.* As far back as some thousands of years before the Christian era India had trade relations with Egypt, Rome, Arabia, Persia, China and the Pacific islands. She exported fine cotton cloth and other articles of great value and small bulk like metal ware and perfumes. In return she imported minerals, Damascus blades, Arabian horses, Persian wines, and gold. She also traded in Ceylon pearls and China silks.

(ii) *Trade in Muslim Times.* In Muslim times, specially under the Moghals, the north-west caravan routes through Kabul and Kandhar came to be largely used while the Malabar coast was the meeting-place for trade from the Far East and the Red Sea. During these times the character of Indian trade remained the same as before and the imports chiefly consisted of costly articles of luxury, "the masses being too poor to buy them".¹ Dutch and Portuguese records so laboriously gone into by Prof. Brij Narain show us the same trend of Indian trade² when she exported fine muslins from Dacca, known as Gangetika in Europe. England was also one of our customers and her fine ladies thought it an honour to be robed in Muslim India's fine products.

1. Moreland : From Akbar to Aurangzeb.

2. Brij Narain : India Before and Since the Crisis, Vol. I.

India was then a creditor country; her balance of trade and payment were both favourable to her. Her imports in merchandise were less than her exports and gold and silver made up the difference. Today, our balance of trade is favourable, but the difference has to be paid in return for the services of foreign (British) ships, banks and insurance companies.

(iii) *Change in the character of Indian Trade.* In the early days of its regime, the East India Company encouraged industries and sent home Indian calicoes and spices, but as the 18th century advanced the entry of Indian manufactures into England was either severely restricted by heavy duties or prohibited altogether. As the Industrial Revolution got in its stride India served as a source of raw materials for England and as a market for her manufactures. Thus the character of Indian trade changed entirely and India began to import goods she had previously exported. Lancashire cloth now formed more than half the imports.

(iv) *The Beginning of Modern Times: 1864-1914.* The opening of the Suez Canal in 1869 is a landmark in the history of Indian foreign trade. It reduced the distance between India and England by more than 5,000 miles which made a great difference—of about 50 per cent.—in the time taken in the voyage. An additional fillip was given to the trade with England and other countries by the laying down of railways in India and the linking up of major sea-ports with the hinterland. The remarkable expansion of trade will be made clear by the following table:—

TABLE III

*Value of Trade in Merchandise inclusive of Government Treasure.
In crores of Rupees.*

Average Quinquennium		Imports	Exports	Total
1864-69	...	32	57	89
1869-74	...	33	56	89
1874-79	...	38	60	98
1879-84	...	50	79	129
1884-89	...	81	89	170
1889-94	...	71	105	176
1894-99	...	74	107	181
1899-1904	...	85	152	210
1904-1909	...	110	165	285
1909-14	...	152	224	376

By this time India had become a unified country, at peace within and without. Custom barriers which had hindered internal trade disappeared. England, having thoroughly industrialized herself, was now upon the free trade basis and India fol-

lowed suit. All these factors stimulated India's foreign trade and resulted in the striking expansion illustrated above. From 89 crores in the quinquennium 1864-49 the total trade increased to 210 crores in 1899-1904 and still further to 376 crores in 1909-1914.

(v) *The War-Period, 1914-1919.* During this period both our exports and imports fell off very much as is shown by the following table :—

TABLE IV

In crores of Rupees (calculated on the basis of prices ruling in 1913-14)¹

Year	Imports	Exports	Total
1913-14	183	244	427
1914-15	137	195	332
1915-16	105	187	292
1916-17	88	202	290
1917-18	71	187	253
1918-19	63	160	223

We conclude that imports fell much more than exports while the fall in the total trade is almost 50 per cent. The ratio of export of manufactures improved from 22 per cent. in 1913-14 to 36 per cent. in 1918-19. If India had been able to manufacture machinery or import it, she could have utilized this opportunity to industrialize herself more fully than she did.

Reasons for the fall in trade :—

(a) Trade with enemy countries stopped entirely; with neutral countries it was restricted severely.

(b) Destruction of vast areas of the belligerent countries reduced their power of purchasing Indian goods.

(c) Inflation in some countries had the same effect on their trade with India.

(d) Lack of shipping accommodation, rise in freights and insurance charges handicapped trade greatly.

(vi) *Post-war Period, 1919-1929.* Just after the war was over there was a boom in trade. Indian goods were in great demand. But for the difficulties in railway transport in India and the high exchange value of the rupee our exports would have been even greater. As usual, this boom was followed by a depression when our balance of trade became adverse to us in 1920-21 and 1921-22. After 1921-22, Indian trade steadily recovered till normal conditions

1. Table taken from P. C. Jain : *Industrial Problems of India*, p. 127.

tions were restored. The table given below clearly enunciates these facts:—

TABLE V
In crores of Rupees
Includes Re-exports, but excludes Government Stores

Year	Imports	Exports	Total	Balance
1919-20 ...	222	336	558	+114
1920-21 ...	347	267	614	-80
1921-22 ...	282	248	530	-34
1922-23 ...	246	316	562	+70
1923-24 ...	237	363	600	+126
1924-25 ...	253	400	653	+147
1925-26 ...	236	386	622	+150
1926-27 ...	240	311	551	+71
1927-28 ...	261	330	591	+69
1928-29 ...	263	339	602	+76
1929-30 ...	249	318	567	+69

India was still importing manufactured goods, but their total importance in the import sheet was less than before mainly due to the Swadeshi and Khaddar movements and progressive industrialization due to protection. The Government too purchased their stores in India if indigenously available.

(vii) *The Period of the "Great Depression"*,¹ 1929-1933. The crash in the Wall Street in New York, "the greatest in its history",² started a fall in prices which ended in an unprecedented slump all over the world. Behind this immediate cause of this slump were other deep-rooted ones. One of the most important of these was the maldistribution of gold in the world. More than 60 per cent. of the total gold in the world was with the U. S. A. and France. The reserves of other countries were depleted for want of gold and they had to deflate their currencies, which brought down prices still further. Another cause to which this slump can be attributed was the mechanisation of agricultural methods and consequent overproduction in raw materials and manufactures. Political troubles in South America, the hotbed of Revolutions, and India accentuated the fall in prices. The immediate result of the slump was an intense wave of economic nationalism everywhere. This led to tariff-barriers, quotas and bilateral treaties leading to a further reduction in trade. The high price of the rupee at 1s. 6d., when all other countries were depreciating their currencies, stood in the way of Indian exports. Japan devaluated the yen and started

1. B. K. Madan, *India and Imperial Preference*, p. 190.

2. S. E. Thomas, *Elements of Economics*, p. 552.

dumping goods into India. This led to the termination of the Indo-Japanese Trade Convention and a boycott of Indian cotton by Japan—a still further aggravation of the trouble. The prices of raw materials and agricultural produce fell more than those of manufactured goods, hence there was a greater shrinkage in Indian exports than imports. To make good the difference between exports and imports India had to export a huge amount¹ of gold amounting to over Rs. 350 crores till 1939. But for these exports India's credit abroad would have been ruined, as she had to find money for the Home Charges through a favourable balance of exports over imports. As the table below shows, there was a dim glimmer of light in 1933-34 that Indian exports had at last turned the corner and were on the road to recovery.

TABLE VI

INDIA'S FOREIGN TRADE, 1929-1934
(Excluding Government Stores and Re-exports)
In crores of Rupees

Year		Imports	Exports	Total Trade in merchandise
1929-30	...	241	311	552
1930-31	...	165	220	385
1931-32	...	126	156	282
1932-33	...	132	132	264
1933-34	...	115	147	262

(viii) *Recovery*.—In spite of intense economic nationalism, tariff barriers and bilateral treaties, the years after 1933-34 showed gradual recovery in trade. This was in the main due to the adoption of the Recovery Plan in the U. S. A. and of similar plans elsewhere ; (2) restriction and regulation of the production of raw materials like rubber ; and (3) immense expenditure on armaments all over the world due to the fear of war. The Ottawa Pact signed by the British Empire countries in Canada in 1932 helped India's trade. Mr. Madan concludes, " In the event of the absence of the present Agreement with the U. K., therefore, not only would this, net addition of trade have been lost to India, but, over and above this a further loss would have been inflicted on Indian exports to the United Kingdom as a result of unequal and privileged competition from the other Empire countries."² In 1934 our trade relations with Japan had improved and the Indo-Japanese Agreement was signed. " Opinion in favour of freer trade gained way.....The Tripartite Currency Agreement

1. B K. Madan, *India and Imperial Preference*, pp. 114-115.

2. See Section 12, Table XVII.

and the Oslo Convention signed by Belgium, Luxembourg, the Netherlands, Sweden, Norway, Denmark and Finland for the abolition of certain quotas and the halting of tariff increases, were the first steps towards free trade.”¹

The prices of raw materials improved resulting in an increase in the value of India's commodity exports. Business went on improving till 1936-37 as shown by the table below.

TABLE VII
Foreign Trade (Excluding Re-exports)
(In crores of rupees)

Year		Imports	Exports	Total
1934-35	...	132	152	284
1935-36	...	134	161	295
1936-37	...	125	196	321
1937-38	...	173	181	354
1938-39	...	152	163	315
1939-40	...	165	204	369

In 1937-38 there was a set-back known as 'Recession' lasting till 1938-39 when the race for armaments and consequent high expenditure all over the world led to a partial rise in prices and improvement in trade. Later the threatening clouds of war grew darker in the horizon, made people nervous and checked business activity. Japan all this time was busy with her private war against China and her demand for Indian cotton fell off. Our exports in 1937-38 as compared with the previous year decreased. The fall in the purchasing power of the Indian agriculturists reduced their demand for manufactured goods and resulted in reduced imports.

5. War-Time Trends : With the declaration of war against the Germans in September 1939 the prospect changed. Prices tended to rise. Demand for Indian raw materials on the part of Allied countries increased. The export figures for 1939-40 as shown in Table 7 above reflect this change for the better and show that, in spite of the loss of enemy markets, Indian exports were higher than before.

The trade returns for the war years are given in next page. It may be pointed out that they suffer from a number of short-comings :—

(1) They do not include the purchases made by His Majesty's Government in our country for the war effort ;

1. Ibid, p. 191.

(2) They do not take into account the Lend-Lease goods supplied by the U.S.A. or the goods delivered by this country under the Reciprocal Aid arrangement ;

(3) Figures of gold and silver sold by some countries in India through the Reserve Bank are also not included ;

(4) The purchases made overseas by the Indian Railways also do not find a place in these statistics ;

(5) and, lastly, the export and import figures of Indian native States with a sea-board of their own are also excluded.

TABLE VIII

Foreign Trade (excluding Re-exports of Foreign goods)
(In crores of rupees)

Year	Imports	Exports	Total
1940-41	157	187	344
1941-42	173	237	410
1942-43	110	187	287
1943-44	119	199	318
1944-45	201	211	412

In spite of the shortcomings pointed out above, the statistics throw certain characteristics into sharp relief which may be stated thus—(a) with the passage of every year the controls on the export and import trade of India became more rigid. Trade Controllers were appointed and no private merchandise was exported or imported without previous sanction. A system of priorities was instituted and licences were issued to private business men, only after careful scrutiny. Large numbers of firms in neutral countries through whom there was a fear of leakage to enemy countries, were 'black-listed' and dealings with them prohibited. As time passed checks and restraints became severer. 'At no previous period since the commencement of the present war has the foreign trade of British India been subject to so many restrictions as was the case during the fiscal year 1942-43.'¹ The last two years, however, show improvement, in both exports and imports.

(b) India lost many good markets for her goods as the war progressed. This loss is clearly reflected in her trade figures (given in Table VIII). In the first year of the war, (i.e., by June 40), France Rumania, Italy, etc., were all lost to us either by defection or by enemy occupation. By July 1941, Japanese assets were 'frozen' in this country while by April 1942, Thailand, the Netherlands, East Indies, and Straits Settlements were lost to the Allies and

I. 'Commerce,' June 26, 1943.

war was being waged in Burma. In spite of all these various losses, however, the returns for 1941-42 are better, owing to greater and more intimate trade relations with the Allies, the U.S.A. and the Middle East. The fall in the figures for 1942-43 reflects the true state of affairs—the clear effect of rigid controls and restrictions.

(c) A third cause of the recession in trade in 1942-43 is extreme shortage of shipping accommodation. Trade lists have been carefully scrutinized and all non-essential items ruthlessly scrapped. Most of the available shipping space had to be utilized for transport of soldiers and armaments. The exorbitant freight and insurance rates also handicapped sea-borne trade.

(d) As war became prolonged stocks in the U.K. and the U.S.A., the only two countries that could supply manufactured goods to India, became exhausted and could not be renovated due to their preoccupation with war. This served as another important factor in the fall of imports;—what India needed was not available and the raw materials to make what was needed was being used to make war equipment.

(e) The figures given in table VIII clearly prove that India's exports in this war have shown a much greater resilience than her imports. The adverse factors working against foreign trade have brought about a far greater shrinkage in imports than exports. The increase in imports in the last year of the war was the result of increased shipping accommodation being available. There was diminishing enemy submarine activity which is reflected mainly in our imports and to a smaller extent in our exports. The largest increase in imports is, however, under oils, mainly consumed by the army. The effects of the war in the direction and nature of India's trade will be discussed later in their proper place.

6. Efforts made by the Government to Stimulate Foreign Trade : (a) The Home-market.

It has been clearly brought out above that India lost many markets as a result of the war. In fact, she lost all her Continental markets on the occupation of France, Rumania, Czechoslovakia, Greece, etc., by the Axis-Powers. The Dutch East Indies, the Straits Settlements, Hong Kong and Burma were lost to her as the result of the aggression of Japan. Indian raw materials—cotton, oilseeds, hides and skins, usually exported to Japan, France and Germany,—were lying unsold in vast quantities.

The Government of India tried their best to encourage the growth of food-grains in place of cash crops to prevent a further

glut in the markets and assured the cultivators that they would not allow the price of food-grains to decline unduly. As a matter of fact there was a big gap to be made up in place of the imports of rice into India from Burma. Moreover, large quantities of food-grains were needed in Ceylon and Iran and to feed the Allied armies in the Middle East. Hence there was little risk of prices of food-grains falling—on the other hand, there was a great dearth of food in the deficit provinces and famine was stalking abroad. Hence the Government under the guidance of Sir Jogendra Singh put into effect every conceivable measure to improve the situation in food. Subsidies were promised, e.g., in Sind for the cultivation of rice; land revenue was excused for a few years if new lands were put under the cultivation of food crops; and seeds of superior quality distributed free or at lower rates.

Circumstances showed, however, that in spite of the Food Campaign of the Government the price of wheat, rice, *jowar*, *bajra*, etc., soared very high and their efforts to control them proved a miserable failure. The Government tried to discourage the cultivation of commercial crops like jute and cotton directly as well as indirectly by making speculation and contracts in futures in these commodities illegal.

Greater consumption of raw materials was made possible by mills and factories working day and night. Vast purchases of textiles were made by Government on behalf of the U.K. and for the use of the people in the Middle East countries.

(b) *The foreign market.* The Gregory-Meek Mission.

Efforts were made to find new markets for Indian produce. In the pursuit of this object a mission, headed by Dr. T. E. Gregory, the Economic Adviser to the Government of India and Sir David Meek, was sent to the U.S.A. in 1940. They reported in January, 1941, that the U.S.A. could not fill the gap of India's lost Continental markets in cotton, oil seeds and other raw goods. This was but natural as the U.S.A. in addition to being an industrial country is an agricultural one *par excellence* and grows her own cotton. So far as oil seeds were concerned the Argentina could supply the needs of the U.S.A., since relations between South and North America were improving as a consequence of the understanding arrived at the Pan-American Conference. The U.S.A., however, needed Indian manganese, mica and rubber which was all to the good. The report further indicated that Indian fancy goods and curios in metal-ware, embroidery, rugs and carpets could find a market in the U.S.A. Kashmir and Benares-made goods were in demand there. Such a market, however, was

not a steady market and needed careful study and constant nursing.

The discussion under the Direction of India's Trade will show that India discovered useful markets in the Middle East. Turkey, Iran, Iraq, Arabia, Egypt and S. Africa came to her rescue. They not only wanted India's food-grains but also her textiles. Canada and Australia absorbed some of her goods. In fact exports from India increased to Rs. 237 crores in 1941-42 and in 1942-43 did not fall below the export figure of 1940-41, *i.e.*, Rs. 187 crores, improving to Rs. 199 crores, the next year.

In 1940, an Export Advisory Council consisting of 20 members presided over by the then Commerce Member, Sir Ramaswamy Mudaliar, was constituted to find ways and means to encourage exports from India and to help industry and trade in general.

Sir Ramaswamy in a speech in the Legislative Assembly in 1941 promised to appoint Indian Trade Consuls in all foreign important countries. India had already Trade Commissioners in Alexandria (Egypt), Mombassa (Kenya), Durban (Natal), London and New York. There were three more such Commissioners before the war, at Hamburg (Germany), Milan (Italy) and Osaka (Japan). There is a Trade Agent in Kabul while Trade Consuls have been appointed in Canada, South America and Australia.

7. Commercial Intelligence and Organization. India has Chambers of Commerce in all important provinces, some of them European, others purely Indian. They are responsible commercial organizations doing good work in making useful suggestions to Government and criticizing their actions when necessary. They educate Indian public opinion on current economic, commercial and industrial matters and serve as useful guides and mentors generally.

Of course India comes now here near the U. K., the U. S. A., Germany and Japan so far as collection of economic data and commercial statistics is concerned, but compared to former times the country is far better served. The Department of Commercial Intelligence and Statistics, the Railway Board, and the Information Bureau compile useful statistics and provide and disseminate correct information. The former keeps in close contact with Trade Commissioners and Agents abroad and takes active steps to give required publicity to Indian products in foreign markets. The Department of Industries gives useful help and guidance to commercial and industrial firms in India.

8. Features of the Trade of India and the Effects of the War on them. A careful study of India's export trade for 1938-39 and subsequent years reveal the following features : (a) In normal years before the first Great War, or other peace years after it, India mostly sold abroad cotton, raw and waste, raw jute, tea, oil seeds, metals and ores, mica and lac, raw hides and skins, grains, wool, tobacco, myrobalans, etc. All of these are raw materials and their percentage to total exports in 1938-39 (a pre-war year) was about 75. In addition to these India exported jute and cotton manufactures, leather and oil. Out of the total exports of Rs. 163 crores in 1938-39, manufactures amounted to less than Rs. 40 crores and out of this the share of jute manufactures alone was no less than Rs. 26 crores and that of cotton manufactures a bare Rs. 7 crores. There are a few other items under the heading of Manufactured goods exported, but they are insignificant in value and quantity.

(b) The figures of exports for the war years present a different picture due to the loss of the Japanese and Continental markets. The exports of raw cotton have dwindled from Rs. 25 crores in 1938-39 to Rs. 17.54 crores in 1941-42 and a mere Rs. 5.30 crores in 1942-43. The years 1943-44 and 1944-45 do not share any great increase in the exports of raw cotton which stand at Rs. 7.49 and Rs. 7.70 crores only. There is a loss in raw jute too which has come down from Rs. 13.40 crores in 1938-39 to a bare Rs. 9 crores in 1942-43 and Rs. 7.50 crores in 1944-45. The exports of jute manufactures have, however, increased from Rs. 26 crores in 1938-39 to Rs. 49 crores in 1943-44 and Rs. 60 crores in 1944-45.

But exports of cotton manufactures record a magnificent increase from Rs. 8 crores in 1938-39 to Rs. 46 crores in 1942-43, Rs. 43 crores in 1943-44, and Rs. 38 crores in 1944-45.

In 1943-44 the Government proposed to leave only 1,500 million yards of cloth for civilian consumption out of a total production of more than 4,000 million yards. The rest was either to be exported or to be consumed by the armies. No exports of cloth or other manufactures could be made without the sanction of special licensing authorities appointed by the Government. As the war progressed these restrictions became more strict.

(c) So far as metals and ores are concerned, Japan was India's best customer for pig iron before she joined the enemy camp, the U. K. coming in as a close second. Indian manganese was exported to the U. K. and Japan, the U. S. A., France, Belgium, and Italy, i.e., all those countries which manufactured steel goods.

During this war the U. S. A. largely took the place of our lost markets for Indian manganese and mica.

(d) Tea has maintained its exports in spite of vicissitudes beyond control, e.g., the lack of shipping space. India exported 23.29 crores worth of it in 1938-39 and 31.60 in 1942-43. Its exports further advanced to Rs. 37 crores and Rs. 38 crores in the last two years of the war.

(e) The position of seeds and nuts in the exports list is also stable. Their exports have maintained themselves round Rs. 11 crores worth all through the war years as compared with Rs. 11.84 crores worth in 1939-40.

B. A similar study of imports into India makes it clear that (i) there has been a much greater fall in imports during the last few years than exports. Foodgrains from Malaya and Burma which aggregated about Rs. 15 crores in value every year have totally disappeared. Secondly, the Allied nations are too pre-occupied with war to manufacture goods for the Indian market. (ii) The imports of almost all articles have gone down in value, the most notable being cotton manufactures which have come down to Rs. 1.37 crores in 1942-43 from Rs. 7 crores in 1941-42 and Rs. 14 crores 1938-39. The years 1943-44 and 1944-45 also do not show any great increase in the imports of cotton manufactures being no more than Rs. 1.33 crores and Rs. 1.54 crores. (iii) Mineral oils imported mainly from Burma in pre-war times are now coming in from Iran and the Bahrein Islands and have risen up in value to 28 crores of rupees in 1942-43 and the huge figure of Rs. 80 crores in 1944-45. (iv) Imports of staple cotton have more than maintained themselves. India purchased raw cotton worth Rs. 9 crores only in 1938-39. In the next two years her takings went up to more than 15 crores annually. India needs all this raw cotton of a superior, staple quality to make cloth of higher counts for which her own cotton is not satisfactory. More of it is needed now than in the pre-war times as imports of finer cloth are not possible at present. It is seen that India imported Rs. 18 crores and Rs. 24 crores worth of foreign cotton in the last two years of the war. (v) The imports of chemicals and drugs, dyes and colours, mill-work and machinery have also shown a greater resilience and have not gone down very much. It is only for lack of these and shipping space that more of them are not purchased by India.

The following table gives a comparative idea of the imports of these commodities during the war years.

In Crores of Rupees

	1938-39	1942-43	1943-44	1944-45
Chemicals and drugs ...	5.62	5.91	6.86	10.14
Dyes and Colours ...	4.03	5.42	8.30	7.92
Millwork and Machinery ...	19.72	10.53	11.31	16.29

(v.) It is noteworthy that the imports of foreign sugar into India have gone down to an insignificant figure. Ten years before they occupied the second place in the imports schedule. The indigenous sugar industry has developed enormously as the result of protection given to it in 1932.

9. The Composition of Trade. The composition of the trade of country is full of significance. It tells us whether the primary occupation of the people is agriculture or industry. The changes in this composition in the passing years reflect the changing nature of economic activity. This is shown by the following table in the case of India :—

TABLE XI

Imports in Crores of Rupees.

	1938-39	1940-41	1941-42	1942-43	1943-44	1944-45
Foodstuffs ...	24	24	28	8	7	19
Raw Materials ...	33	42	50	52	64	117
Manufactures ...	93	90	94	49	45	62

Exports both Indian and Foreign in Crores of Rupees.

	1938-39	1940-41	1941-42	1942-43	1943-44	1944-45
Foodstuffs ...	76	68	73	45	48	50
Raw Materials ...	39	42	60	49	54	58
Manufactures ...	51	86	115	98	106	116

Imports—Percentages.

	1938-39	1940-41	1941-42	1942-43	1943-44	1944-45
Foodstuffs ...	16	15	16	7	6	10
Raw Materials ...	22	27	29	47	55	59
Manufactures ...	61	57	54	45	39	31

Exports (Indian and Foreign)—Percentages.

	1938-39	1940-41	1941-42	1942-43	1943-44	1944-45
Foodstuffs ...	23	21	24	25	23	22
Raw Materials ...	22	34	29	23	26	26
Manufactures ...	30	43	46	50	51	52

We learn that during the war years the exports of manufactures have steadily increased from 30% in 1938-39 to 25% in 1944-45, while the imports of raw materials have progressed at even a greater pace from 22% in 1938-39 to 59% in 1944-45. At the same time the exports of raw materials and the imports of manufactured goods have decreased on parallel lines.

The increase in the exports of manufactured goods is mainly due to larger exports of cotton textiles sent abroad to fill the gaps left by Japanese and British textiles. Now that the war is over,

India will have to face the competition of British goods not only in her new markets but also in the home market. It would be very interesting to watch the composition of India's export trade a few years hence.

On the import side, the prominent fact which is reflected in the percentages is the sudden drop in foodstuffs. This is accounted for by the disappearance of the imports of rice from Burma due to the occupation of that country by Japan. The 1944-45 figures, however, show that the Government of India succeeded in importing more foodstuffs compelled by the Bengal famine in the previous year.

10. The Direction of the Trade of India. By direction of trade we mean the countries with which India has usually trade relations and the quantity of merchandise exported or imported.

The following conclusions may be noted :

(a) *India and the U. K.*—Table XIII shows that imports from the U. K. into India before the War of 1914-18 amounted to 63 per cent of the total. This share of the U. K. has steadily tended to decrease till they were as low as 30 per cent. in 1938-39, 21 per cent. in 1941-42 and 20 per cent. in 1944-45. The peculiar advantages that the U. K. enjoyed in the past over all countries—Empire and Non-Empire—should be borne in mind. She was the first country in the world to industrialize herself. She has also been the suzerain power of India for more than a century. Thus she was in a position to buy and sell in India what was to her benefit. Her investments in Indian railways, factories and plantation industries are vast. From these she draws a huge amount of dividend annually. Her ships, banks, and insurance organizations render 'invisible services.' India's import is only 25 per cent, for Andrew Yules, Killick Nixons and Shaw Wallaces dominate all kinds of industry,—jute, tea, coal, iron, sugar, cotton and what not. Tatas and Birlas are rare. It is only recently that a few more Indian entrepreneurs like Dalmia and Walchand Hirachand have come to the forefront. But the share of all of them in the total value produced is insignificant by comparison. A glance at the financial columns of the "Commerce" or the "Capital" will convince even the most prejudiced reader that the cream of profits goes to the British interests and bare leavings are left to Indians. The great fall in the imports from the U.K. during the war years is the natural result of her preoccupation with production for the total war on hand.

TABLE XIII A
Percentage Share of Principal Countries in India's Trade Exports.

Empire Countries	1909-14	1914-19	1938-39	1940-41	1941-42	1942-43	1943-44	1944-45
U. K.	25.1	31.1	34.3	35.0	32.3	30.5	30.1	29.3
Burma	...	...	6.6	8.0	4.9	0.1	...	...
Ceylon	...	...	3.2	4.0	4.1	7.7	7.0	9.0
Straits Settlements	3.4	2.7	1.3	1.6	1.8	...	...	...
Australia	1.4	2.2	1.8	3.7	5.1	...	...	...
Canada	...	...	1.3	1.6	2.7	8.5	6.5	7.0
South Africa	...	...	0.9	1.6	2.5	2.0	2.5	3.3
British East Africa	...	...	0.3	1.0	2.6	5.6	5.0	5.5
Palestine	...	...	...	...	1.0	4.0	6.4	5.7
Aden	...	...	0.6	0.3	1.0	1.0	...	...
Others	7.5	11.4	3.3	5.7	4.4	2.0	1.5	1.9
Total British Empire	41.1	51.7	53.6	62.5	62.6	5.5	5.6	3.7
Foreign Countries	1	...	...	...	...	67.0	64.6	65.4
Soviet Russia	0.9	1.2	0.2	...	0.3	...	...	...
Turkey	...	...	...	...	0.2	0.4	...	...
Syria	...	...	...	...	0.2	0.8	1.5	0.8
Iraq	...	...	...	...	6.3	1.1	...	...
Iran	0.5	1.6	0.5	0.5	1.3	4.2	2.0	1.4
Arabia	...	...	...	0.3	0.5	2.2	1.0	1.4
Middle East Countries	...	...	...	0.5	0.9	2.2	1.3	0.9
Egypt	...	...	...	1.3	2.5	2.0	1.5	1.5
Java, Borneo etc.	1.3	1.1	0.4	0.5	2.1	...	...	...
China	3.9	2.0	1.5	5.3	0.9	...	...	...
Japan	7.5	11.2	8.8	4.8	1.9	...	...	...
U.S.A.	7.5	11.9	8.4	14.0	19.5	...	...	...
South America	...	...	...	3.0	3.5	14.7	20.1	21.3
Germany	9.8	0.9	5.0	...	...	2.2	3.0	3.5
France	6.6	4.5	3.7	...	...	...	...	...
Belgium	5.3	0.5	2.5	...	...	...	...	...
Italy	3.2	3.9	1.5	...	...	...	...	...
Others	12.4	9.5	13.9	7.0	...	...	...	...
Total Foreign Countries	58.9	48.3	46.4	37.5	37.4	3.2	5.1	3.0
						33.0	35.4	34.86

Percentage Share of Principal Countries in India's Trade

	1909-14	1914-19	Imports. 1938-39	1940-41	1941-42	1942-43	1943-44	1944-45
Empire Countries	...	...	...	...	...	...	...	...
U. K.	62.8	56.5	30.5	22.9	21.2	26.8	25.0	1944-45 19.9
Burma	...	...	16.0	18.2	17.0	1.3	...	...
Ceylon	0.5	1.1	0.8	1.3	2.0	4.0	3.0	1.9
Straits Settlements	2.1	3.0	2.7	3.3	3.1	6.2	...	...
Anstralia	0.7	6.8	1.6	1.5	2.9	3.0	4.2	4.9
Canada	...	...	0.6	1.8	3.9	5.0	2.1	1.8
South Africa	...	...	0.2	0.5	0.7	2.0	2.2	1.4
British East Africa	...	...	3.4	2.3	6.4	8.4	6.8	5.7
Palestine	...	...	...	...	...	...	...	...
Aden	...	...	6.2	0.2	0.2	0.5	0.8	0.4
Others	3.6	4.0	2.1	5.5	3.8	4.2	4.0	2.8
Total British Empire	69.7	65.4	58.1	57.5	61.2	55.4	48.3	38.8
Foreign Countries	...	...	...	...	...	...	...	...
Soviet Russia	0.1	0.1	0.1	...	...	...	...	...
Turkey	...	...	...	...	...	...	...	...
Syria	...	...	...	...	...	...	...	...
Iraq	...	...	...	0.3	...	...	...	...
Iran	0.4	0.6	2.3	2.1	...	0.2	0.8	0.4
Arabia	...	...	...	0.2	0.1	16.2	22.8	24.3
Egypt	...	...	...	1.7	2.7	0.3	0.6	0.2
Java, Borneo etc.	6.4	7.8	0.3	0.7	1.3	7.3	...	8.4
China	1.1	1.3	1.1	1.8	1.6	0.1	...	...
Japan	2.5	10.4	10.1	13.7	6.8	...	...	0.6
U.S.A.	3.1	7.0	6.4	17.2	20.2	...	...	...
South America	...	...	...	...	...	17.2	16.1	25.0
Germany	6.4	0.7	8.5	...	...	...	...	...
France	1.5	1.3	0.9	...	...	...	...	...
Belgium	1.9	0.3	...	...	...	...	...	...
Italy	1.0	1.2	1.8	...	...	...	...	...
Others	5.9	3.9	8.5	4.8	...	...	...	...
Total Foreign Countries	30.3	34.6	41.9	42.5	38.8	44.6	51.7	61.2

The U.K. has been heading the list in Indian exports throughout the war years both in value and percentages. She urgently needed Indian goods for successful conduct of the war. In 1944-45 India exported goods worth Rs. 62 crores to the U. K.

(b) *India and Japan.*—From the same tables it is obvious that the United Kingdom's position in Indian imports has been challenged by Non-Empire countries, specially Japan, Germany and the U.S.A. The goods of England, though superior in quality, are costly. Her wages are high and social insurance schemes expensive. Japan found the weak spot in her armour. With her low wages, depreciated currency and government aid she has filched away a good part of the British market in India, mainly because the Indian masses are too poor to buy costly English goods. One may condemn Japanese business methods, but one cannot also help admiring them for their efficiency. They bought Indian cotton, paid for its transport to Japan, converted it into cloth, paid its freight to India and a heavy custom duty to boot, and still beat the Indian manufacturers, manufacturing Indian cotton with cheap Indian labour. Such was their wonderful organization and so closely did they study the Indian market. With the occupation of Japan by the Allied troops and her total defeat, it is obvious that U.K. and India need not fear competition from her at least for a number of years to come.

India and the U.S.A.—At the same time the U.S.A. and Germany with their standard goods produced *en masse* have penetrated the Indian market pretty deep at the expense of the U.K. The following figures are an interesting study.

Percentage distribution of India's imports.

Year	Foreign countries	British Empire	U.K.	U.S.A.	Japan	Germany	Iran	Egypt	Burma
1909-14	3.03	69.7	63	3	2.5	6	...	...	...
av									
1938-39	58.1	41.9	30.5	6	10	8.5	2	...	16
1944-45	61.2	38.8	20	25	...	...	24	18	...

With the falling out of Japan, Burma, Malaya and the continental countries of Europe, the U.S.A. has improved her position in Indian trade tremendously. The figures for 1944-45 go far to prove the statement. India imported goods worth Rs. 50.46 crores and exported goods of the value of Rs. 44.79 crores. These remarkable figures cannot be maintained in peace times and are mainly due to all other markets having been rendered useless by war preoccupations.

India and Pakistan sell to the U.S.A. goat, sheep and lamb skins, lac, manganese ore, mica, castor oil seeds, spices, tea, and

above all, raw jute and jute cloth. In July 1943, the U.S.A. placed a huge order in India for hessian and jute gunny bags to be supplied within the current fiscal year. This was a lucky windfall for India. The ships which would carry away 75 crores of gunny bags would bring a great deal of merchandise consisting of iron and steel goods, machine tools, hardware, motor cars etc. urgently needed in India.

Post-war Trade with U.S.A. :—The war is over. The post-war trade prospects of India with some important countries present an intriguing and important problem for consideration. Of all these relations with the U.S.A. are the most important.

Most of the machinery in Indian factories is almost completely worn out due to twenty-four hours' working. Neither U.K. nor U.S.A. was in a position to supply machines or spares during the war years. Hence there is an urgent demand for all kinds of capital goods. England is not yet in a position to satisfy the entire needs of India in this direction, hence the United State will have to step into the gap.

In a recent report submitted by the Indian Trade Commissioner¹ in New York it has been clearly brought out that there is an enormous home demand for all kinds of goods, consumer and capital, in U.S.A. itself. There are also solid business enquiries from Russia, China and South America. Hence we must make 'spot purchases' of all capital goods we need. For such goods ready dollar exchange is required. It is expected that at least some of the sterling assets lying to the credit of India and Pakistan in U.K. (amounting nearly to Rs. 14.50 crores) will be released for this purpose by the British Government.

It is evident that there is a keen pent-up demand for our goods of all kinds like burlap, jute yarns and coverings. There are bright prospects for short staple cotton for the manufacture of worsted cloth. Shellac for paints and varnishes, and mica for all manner of radio and electrical equipment will also find a good market. The outlook for sheep and lamb skins is much brighter than for other kinds of leather.

The market for cashew nuts is already established and the demand is likely to rise in post-war times. Kashmir embroideries, Mysore and Bombay printed silks are sure to have a strong response. Benares and Surat gold and silver cloths are bound to command favour. It should, however, be remembered that as reported by the Gregory-Meek Mission such a market needs careful nursing with sample consignments and regular production of desired qualities.

1. Report by Mr. Kirpalani, I.C.S. in August 1945.

*India and the British Empire.*¹ The British Empire countries had a percentage share of 52 in the trade of India in the quinquennium before the last Great War, 57 in the war years and an average of 52 per cent. again in the years 1919-1924. They had a phenomenal decline from 52 per cent. to 24 per cent. in 1929-30 while the foreign countries improved their share from 47 per cent. to 57 per cent. The share of the U.K. also declined from 40 per cent. to 31 per cent. at the same time. For these urgent reasons protective measures in the form of an Imperial Preference policy were adopted at Ottawa in September, 1931. The U.K. had to defend her markets against the inroads of foreign competitors and to stimulate trade within the Empire.¹

After 1931-32 the share of the U.K. in India's export trade which had fallen as low as 21.4 per cent. in 1928-29 improved to 34 per cent. in 1938-39 and 35 per cent. in 1939-40. The Ottawa Pact helped the U.K. only moderately because India was also developing her own industries. The recent war has given India a great opportunity to do so behind the tariff wall raised by the war. The ex-Government also had grown sympathetic for strategic reasons. Unfortunately, the Allied countries cannot spare capital goods to India in spite of the vast amount of sterling assets standing to her credit in England otherwise the end of the war would have seen a remarkable change in the picture of India's trade. U.K.'s share in India's exports could not be maintained at the pre-war level as there were great demands on Indo-Pak goods from Australia, S. Africa and the Middle East.

In 1942-43 the share of the Empire countries rose to 60 per cent. of the total trade of India, but India's imports fell to 61 crores of rupees from 105 crores in 1941-42, a fall of 40 per cent. The big drop was due to the evaporation of 40 crores of rupees worth of trade with Burma. The U.K. also suffered much in her trade with India during this year. She dropped Rs. 7 crores in exports to India and Rs. 19 crores in imports. The Union of South Africa showed a doubled record both in exports and imports.

Canada's position is the same in 1942-43 as the year before. British East Africa exported less to India while India sold three crores of rupees worth less of goods to Kenya which is not only surprising but disturbing as well, for there is no obvious reason for this decline. Ceylon, on the other hand, sent to India one crore worth more of goods while she purchased 5 crores of rupees worth more than in 1942-43, i.e., Rs. 14.45 crores. India imports

1. L. Dudley Stamp—The World, p. 532.

from Ceylon copra and coconut oil and sells her foodgrains and textiles. During this year India's trade with Australia also was good. India exported 16 crores worth of merchandise to her and got back only 3'34 crores of rupees worth. Tables XII and XIII show that this trend has continued in the years 1943-44 and 1944-45.

India and Canada : Post-war prospects :—

During the year 1944 the total value of Indo-Canadian trade reached the record figure of £202 millions, 19 times more than in the year 1938. As the result of this spectacular expansion, India occupied the third position in the order of importance both as a seller and a buyer of Canadian goods.

The balance of trade which used to be favourable to India in pre-war times (it was 4 : 1 in favour of India in 1938) was almost 1 to 7 in 1944 against it. The value of Canadian exports to India was 87 times the corresponding figure in 1938. The total value of Indian exports to Canada was 3½ times the value of her exports in 1938.

The current exports to India are no doubt greatly swollen with military materials but a good deal of the new business has come to stay and normal exports in peace times will always amount to much more than those before the war.

Now India and Pakistan can easily buy from Canada not only more consumer goods (including electrical goods) but also more heavy machinery, plant, factory equipment, and implements.

Post-war prospects of India in the Canadian market : Manganese and chrome ore which were required for war purposes will find an ample use in peace times. Pakistan can be reasonably expected to replace imports from Japan both in manufactured and semi-manufactured goods. Experts hold that our tea, jute and cotton textiles will find an expanding market.

India and Australia : The value of Indian exports to Australia during the war years has recorded a sevenfold increase. The most spectacular increase was in cotton textiles which were not available to Australia from elsewhere. Similarly Australia's exports to India from £1 million in 1936-37 to £8 millions in 1943-44.

Post-war Prospects :—The Indian Trade Commissioner in Australia opines that American cotton will find its position in Australia and share it with India as in pre-war times. India will also not be able to maintain her war position in cotton textiles and will have to face serious competition in tobacco, tea and coffee.

There is no risk of Pakistan losing the oil seeds market. Sports goods from Sialkot have also gained a firm foothold. India has a virtual monopoly in shellac, myrobalans, and mica. There are substantial chances of an increased off-take of Pakistan gunny bags and floor coverings, and goatskin to art silk, cutlery and surgical instruments provided we adopt up-to-date manufacturing methods.

In return we will be able to get machinery for processing raw wool and for the manufacture of plywood, perfumery, bicycles, oil-milling and hardware plastics. We can also import agricultural machinery and railway equipment. Plant for the production of chemicals, rubber goods and drugs and medicines can also be made to order if required as Australia has made great progress in this direction during war years.

India and Burma.—Burma was a part of India till April 1, 1937. After its separation from India, a Trade Regulation Order governed their trade relations, till in 1941 a regular Trade Agreement was made. Bengal is a deficit province so far as food is concerned. Before the occupation of Burma by the Japanese, India imported over 15 crores of rupees worth of rice a year Rs. (16.65 crores in 1938-39 out of a total of Rs. 31 crores). India also purchased from Burma Rs. 8 crores and Rs. 2 crores worth of mineral oils and timber (teak) respectively. Indian exports to Burma are much less—Rs. 12 crores in 1938-39—of which textiles were worth 6 crores of rupees, the rest consisting of tea, sugar, machinery, etc. During the enemy occupation of Burma, India had been in difficulties to supply food to Bengal. The congestion in railways made the problem more difficult. The lack of ships made it impossible to import foodgrains from Australia.

India and Iran—Before the war India purchased her mineral oils mainly from Burma (48 per cent.), Bahrein Island (11 per cent.), Java etc. (13 per cent.), and U.S.A. (9 per cent.). Since the loss of the Dutch East Indies and Burma, India has to depend for her mineral oils on Iran and the Bahreins. In 1942-43 India purchased 28 crores of rupees worth of oil from these two sources as compared with 22 crores only in the previous year from all sources including Burma. The war has resulted in a most remarkable acceleration of trade between India and Iran. There is an increase of Rs. 6 crores of rupees in imports into India from Iran to Rs. 18 crores and Rs. 3 crores in exports to Rs. 6 crores in 1942-43 as compared with 1941-42 which was a very good year for the trade of India.¹ In 1944-45 India imported no less than Rs.

1. Figures for 1939-40. The Review of the Trade of India. See Table XIV and also Table XV.

49 crores worth of mineral oils from Iran and exported goods worth Rs. 4 crores only. This kind of one-sided trade cannot continue in normal times when the military needs of oils diminish to a large extent.

India and the Middle East countries :—Our exports to Turkey, both European and Asiatic, have trebled and to Arabia doubled.¹ India's favourable relations with the Middle East countries are largely the result of the activities of the United Kingdom Commercial Corporation (U.K.C.C.), a British Government organization which has spread its tentacles all over the world. It made purchases of Indian goods too and forwarded them to various Allied countries on behalf of the U.K.

The Indian business interests have been grumbling at the Corporation's activities as it deprived them of high profits which would have otherwise been their share.

11. The Balance of Trade: One of the most striking features of India's trade is her favourable balance of trade (*i.e.*, the excess of exports over imports) through the years. This has made it easy for the Government of India to maintain a stable exchange ratio, to remit funds abroad and to meet other obligations of all kinds.¹ It is rarely that India has an adverse balance as in 1920-21 and 1921-22. Normally the exports exceed imports. During the Depression years starting with 1931 the balances gradually grew less favourable. India then started exporting gold to make good the deficiency in exports of merchandise. The following table makes the position clear.

TABLE XVI
Balance of Trade in Merchandise. In crores of rupees.
(Re-exports included)

Year.	Balance	Year	Balance
Pre-war average ¹	...	1935-36	31
War average ²	...	1936-37	78
	76	(16 crores excl. Burma)	
		(51 crores excl. Burma)	
Post-war average ³	...	1937-38	43
1924-25 to 1928-29 average ⁴	113	1938-39 ⁴	17.50
1930-31	...	1939-40	48
1931-32	...	1940-41	42
1932-33	...	1941-42	80
1933-34	...	1942-43	84
	35	1943-44	92
		1944-45	27

1. The Review of the Trade of India, 1939-40 and 1936-37.

2. Explained under Home Charges.

3. The years of pre-war average 1909-1910 to 1913-14, for war average 1914-15 to 1918-19 and the post-war average are 1919-20 to 1924-25.

4. After this year all figures exclude Burma.

India had to meet Home Charges amounting to from to 70 crores of rupees a year in pre-war times. The above table shows that since 1931-32 the balance in our favour was not enough to meet our obligations abroad. It was in September, 1931, that the exodus of gold started and it continued to flow out up to the outbreak of the war when our balance of trade grew very favourable.

TABLE XVII

Exports of gold—In crores of rupees.

Year	Gold	Year	Gold
1931-32	58	1936-37	28
1932-33	65.50	1937-38	16
1933-34	57	1938-39	13
1934-35	52.50	1939-40	35
1935-36	37	...	...

Due to the monetary crisis in the U.S.A. in 1929, prices fell, international trade declined, and after 1931 our comfortable balance decreased till it was a mere 3 crores in 1932-33. The sale of gold by the people of India who were in distress and lived upon their capital providentially came to the rescue of India's foreign trade and gave funds to the Government to meet their obligations of Home Charges abroad. The total amount of gold exported till 1940 was 351 crores.

12. Home Charges : Payments are due from India to the U.K. every year. To make these payments India must have a favourable balance of trade and normally she has it. Most of these payments are due to what are called Home Charges. They have been often criticised as 'a drain of wealth,' a sort of tribute paid by India to England on account of her political subjection. The 'drain theory' would be quite correct if India received nothing in the way of material wealth or immaterial services in return. Let us examine each of the items usually included under Home Charges and find out how far the criticism is right.

(a) *Interest on loans raised in England to finance railway and irrigation schemes.* When these loans were raised there was not enough capital in India to satisfy Government requirements. The position is, of course, different now. Secondly, the rates of interest in London were much lower than in India. All countries in the world, that started late on the road of industrialization and stood in need of capital to finance big schemes, went to London to borrow money. India was in a more favourable situation as compared with these as she was a part of the British Empire and could get money at lower rates. Some Indian economists charge the Government with the misuse of the money borrowed. But

that is a different story altogether. Individual householders make mistakes in spending their hard-earned earnings. Properly managed the loans borrowed might have given India a few more miles of railway lines or canals. But that is about all the blame that attaches to the Government in this matter and the expenditure can in no case be styled 'a drain'.

(b) *Government stores charged against revenue.* Since the inception of the Indian Munitions Board, later merged into the Imperial Department of Industry and Commerce, Government stores have been purchased in India as far as possible, but still a good deal of expenditure has to be incurred in England.

(c) *Leave and Furlough allowances, Pensions and gratuities of all kinds and the cost of maintaining the High Commissioner for India in London and the India Office.* The pensions and gratuities are paid to British civil servants working in India and earned by them. The question of Indianization has been in the forefront of the Indian political field. It has also been said that unnecessarily high salaries and emoluments are paid to the foreigners. With Indians carrying on the work of administration the civil salary bill would be comparatively much lighter. What is more, what the Indians earned would remain in the country with their experience. At the present moment both are a loss to India.

(d) *Military and Marine Charges.* The British army in India has been criticized on two grounds. It had been said that it is too large for the defence needs of India. If it is meant more for Imperial purposes than the defence of India, a portion of its cost should be borne by the U.K. In the year 1934-35, this was agreed to by the British Government in principle and they started contributing 2 crores of rupees a year to the maintenance of the army in India. Till April, 1938, India contributed £100,000 annually to the British exchequer for naval protection. Since then this contribution from India has been given up on condition that India maintained six sea-going armed escort vessels.

The second ground on which the army expenditure had been criticized is that a British soldier is more costly to keep than an Indian soldier, therefore, British army units should be replaced by Indian units. The achievements of the Indian armies in North Africa, Italy and Burma in this war go far to prove that the Indian soldier as a fighter is second to none in the world.

It is a matter for satisfaction, however, that due to enormous purchases made by the British Government in India during the war, all our sterling debt has been repatriated. From being a debtor country India has suddenly become a creditor country.

A vast accumulation of sterling assets (Rs. 1042 crores) stand to our credit in London today (October, 1948). As proposed by Sir Jeremy Raisman, ex-Finance Member, the family pensions and provident funds of the Britishers who were in service in this country in February, 1943 were capitalized. The railway annuities were also capitalized and the promise held out by the Finance Member in the words, "With the virtual cessation of payments of interest on interest account to the external bond holders, the only substantial liability still remaining on account of which a sterling balance would normally be necessary will be payments on account of sterling pensions, family pensions and provident funds. It is estimated that these charges in the period that lies ahead will be of the order of 5 to 6 million pounds a year," have been converted into a hard fact.

In addition to the four items enumerated above which constitute Home Charges India has to make some other payments too. For instance, (i) a good deal of private foreign capital has been invested in India, the interest and profits of which go out of the country every year. As discussed elsewhere,¹ foreign capital is no doubt beneficial in some respects but also brings in its train a long chain of evils. A good deal of our excess of exports over imports is accounted for by this item. (ii) In addition, "the services of foreign shippers, bankers and commission agents have to be paid for."² India does not possess an Exchange Bank of its own, hence all earnings in this connection go out of the country. Besides these, large premiums and commissions have to be paid to the foreign insurance companies working in India.

Considering the pros and cons as discussed above the idea that Home Charges are 'a drain of wealth' or 'a tribute' from a subject country to her overlord is ridiculous. All the same, it will have to be admitted that there are genuine grounds for complaint which should be looked into and remedied.

During the war years we have, practically speaking, paid off all our loans, funded railway annuities as well as furlough allowances and pensions and have thus wiped off our debt and emerged a creditor country to the tune of £1000 millions. This position is bound to have a remarkable influence on the future trade of India and Pakistan.

1. Under Foreign Capital, p. 293,

2. Brij Narain—India Before and Since the Ciris, Vol. II, p. 252.

13. Balance of trade with some individual countries :

(a) *India and the United Kingdom.*—The following table shows India's balance with the U.K. in crores of rupees :

			Imports	Exports	Balance
Pre-war average	...	...	91	56	—35
War average ..	...	...	84	70	—14
Post-war average	...	...	146	73	—73
1932-33	...	...	49	38	—11
1933-34	...	...	47.63	48.30	—0.57
1936-37	...	...	44	67	+16
1937-38	...	...	52	64	+12
1940-41	...	...	36	65	+28
1941-42	...	...	37	77	+40
1942-43	...	...	30	57	+27
1943-44	...	...	30	60	+30
1944-45	...	...	40	62	+22

It is seen that the balance of commodity trade with the U.K. was always unfavourable to India till 1936, when for the first time it became favourable. Since then it has remained in India's favour. The figures for the last Great War compared to recent war show the great change in India's position *vis-a-vis* the U.K. The percentage increase of the share of the U.K. in India's export trade was on the decline till 1928-29 when it was only 21 per cent. It then started increasing and rose to 32 per cent. in 1936-37.¹

During the war years U.K.'s share in India's exports stands as follows :—

1940-41	...	35 per cent.
1941-42	...	32 "
1942-43	...	31 "
1943-44	...	33 "
1944-45	...	34 "

(b) *India and the Empire Countries* :—India's balance of trade with the Empire countries, excluding the U.K. which had always been favourable during pre-war, war and post-war years became adverse in 1935-1936. It was only in 1941-42 that it turned in India's favour again as a result of the war. Efforts should be made through a study of the Empire markets to have as far as possible equal balance if not a favourable one. Kenya and Burma should be paid greater attention. There is no reason why we should import 30 crores of rupees worth of goods from Burma in return for a mere 12 crores in normal times. The Trade Agreement made with Burma has been working against the interests of India and Indians in Burma and should be modified.

1. Madan—India and the Imperial Preference, p. 34.

Balance of trade with the Empire countries excluding the U.K.

(In crores of rupees)

Year		Year	
Pre-war average	+26	1937-38	- 9
War average	+33	1938-39	-12
Post-war average	+33	1940-41	- 1
1935-36	-11	1941-42	+ 8
1936-37	- 9	1942-43	+38
		1943-44	+41
		1944-45	+38

(c) *India and the Foreign Countries.*—The plus balance of trade against some non-Empire countries turned into a minus one before the war, e.g., against Japan and Germany.

Germany		Japan	
Year		Year	
1932-33	-2	1932-33	-6
1933-34	+1	1933-34	-4
1936-37	-3	1936-37	+9
1937-38	-5	1937-38	-4
1940-41	-13		
1941-42	-7		

Against some other non-Empire countries India's favourable balance greatly diminished, in pre-war years, e.g., against France and Italy.

(In crores of rupees)

		France		Italy
Pre-war average	...	+13		+6
War average	...	+8		+7
Post-war average	...	+12		+7
1932-33	...	+6		+1
1933-34	...	+6		+3
1937-38	...	+4		+2

This change is mainly the result of the policy of bilateralism and economic self-sufficiency that most countries adopted after 1929. During the war, India's trade with the Axis and Axis-occupied countries has disappeared. Out of the foreign countries the most important with which India has trade relations now are the U.S.A. and the Middle East countries. The following tables for current years should prove an interesting study and give an idea as to where India's interest in foreign trade lines in the future.

TABLE

Balance of Trade with Non-Empire Countries.
In Lakhs of Rs.

Year	Turkey	Iraq	Iran	Egypt	Arabia	Syria	U.S.A.	South America	Total Non-Empire Countries
1940-41	+18	+2,38	-2,83	+ 12	+ 67	...	- 1,10	+5,42	+11 20
1941-42	+48	+2,22	-4,69	+1,23	+1,84	+2,72	+11,80	+8,50	+31.40
1942-43	+157	+7,77	-13,55	-4,45	+3,89	+2 20	+ 8,79	+420	+17 50
1943-44	+3,00	+3,34	-25,77	-8,29	+2,02	+46	+21,54	+6 00	+ 9,54
1944-45	+1,69	+1,47	-46,49	-14,02	+1 87	+50	- 5,67	+7 00	-49 83

14. Prominent Feature of India's Trade during the war years 1939 to 1945: With the outbreak of war there was a great increase in trade activity and Indian raw materials were in great remand. The fall of France and the loss of other Continental markets brought about a sharp shrinkage in trade, while the outbreak of hostilities with Japan made confusion worse confounded. It was not till the middle of 1942 that there was a turn for the better. The improvement was, however, confined to a few articles like cotton and jute manufactures and tea.

The most salient feature of Indian trade during the war has been the expansion of her business with some Empire countries. India had established more intimate contacts with Australia, Canada, Egypt, Iraq and other Middle East countries, specially those in the sterling bloc. Secondly in almost all cases, except the Bahreins and Iran, which have been supplying mineral oils to us (Rs. 31 crores worth in 1943-44 and Rs. 53 crores in 1944-45), India has built up favourable balance of trade.

Thirdly, Indo-Pakistan has built up a very heavy trade with the U.S.A. (Rs. 95 crores in 1944-45 compared to Rs. 102 crores with U.K. in the same year).

Fourthly, our imports have been comparatively at a lower level (up to 1943-44) mainly due to the inability of foreign countries to produce the consumer goods needed by India. Thus the balance of trade has been heavily in her favour.

Fifthly, Indian exports have shown a greater resilience than her imports in spite of the lack of shipping accommodation.

The old pattern of things is, however, visible in the figures for 1944-45. Imports have increased from Rs. 118 crores in 1943-44 to Rs. 201 crores in 1944-45, while exports of Indian goods have increased from Rs. 199 crores to Rs. 211 crores only in the same period. It is obvious that with increasing shipping

facilities India, starved as she has been of both capital and consumer's goods during the war, will import hugely and may develop an unfavourable balance of trade for some years.

15. The Entrepot Trade of India: India is very conveniently situated for trade between the West and the East. Goods from China, the East Indies and Ceylon find a convenient halting place on their way to Europe. Similarly, the goods from Europe are distributed from Indian ports.

There are countries like Tibet, Nepal and Afghanistan that have no seaboard of their own. Their exports and imports also pass through India. Wool and skins from across the Frontier flow through Lahaul and Kullu valley into India are sent to the U.K., and the U.S.A. In return textiles, sugar, tea, spices, etc., of foreign origin are taken out across the border.

Indian re-exports went on increasing to the year 1923-24 and then consistently fell till 1933-34. Gradually they have improved again. The following table gives an idea of the expansion in the last few years.

RE-EXPORTS (in crores of rupees)

1920-21	...	...	18	1937-38	...	...	8
1924-25	...	...	14	1939-40	...	...	10
1931-32	...	...	3	1940-41	...	...	12
1935-36	...	...	4	1941-42	...	...	15
				1942-43	...	...	7
				1943-44	...	...	11
				1944-45	...	...	17

There does not seem to be much of a future for India's Entrepot trade, as every country wants to have direct bilateral relations or quota arrangements with others. Only those countries which are beyond the frontier of India and are without access to the sea will use India as a passage for their exports and imports. It is more than possible that India will replace the foreign countries and absorb such goods herself and export to them what they need in return.

A brief study of the trade of India with Afghanistan would be of interest. Afghanistan has no sea frontier. India was her natural entrepot. The value of her trade with India for some years is given below :—

Average per annum from 1900-1905	Rs. 1,30 lakhs
1937-38	Rs. 587 „
1941-42	Rs. 952 „

1. See Report on Currency and Finance—1942-43, p. 17.

During the war years after the declaration of war by Japan, India could not fill the gap left by that country in the trade with Afghanistan. Although trade fell, still Indian exports to Afghanistan actually increased.

India and Pakistan export cotton, tea, leather goods, scientific instruments, rubber goods, sugar, silk manufactures and live-stock to Afghanistan and in return buy mainly fruits, nuts, vegetables, skins and furs, spices and wool.

There is much scope for expansion of trade with Afghanistan.

16 The Future of the Trade in India: The increase in the export of textiles during the war has been remarkable—46 crores of rupees worth in 1942-43. Markets which were a close preserve of the U.K. and Japan have been thrown open to India. Indo-Pak manufacturers and business men should study them intensively and meet their needs in a way that they can retain these markets now that war is over. They must maintain their position in the Middle East, Ceylon and Africa. The Indo-Pak market which is starved for want of supplies today should, however, be the first concern of India. It is a huge market and foreign competitors have it in keeping—India still mainly imports manufactured goods.¹

The Government of India had definitely promised to help industries with a bright future in every way they can after the war is over. Internal trade cannot be divorced from foreign trade, specially in a country like India. Further, India's foreign trade must be governed by her political circumstances. Being a free country enjoying fiscal autonomy now we can have a foreign trade policy of our choice when the war is over. Our foreign competitors will not only try to oust us from the markets we had gained abroad but they will try to conquer and dominate our home market too. With high prices and an inflated currency, India will be a good market to sell in and a bad one to buy of. It is, therefore, urgent that Reconstruction plans be framed now in co-ordination with the plans mooted in the U.K. and the U.S.A. A permanent Board of Trade with private business interests fully represented on it to promote Indian and Pakistan trade interests abroad and at home will be of eminent use.

On the return of peace times industrial activity of a different nature will replace the manufacture of munitions and armaments. Indian raw materials will be in great demand in the world for

1. K. T. Shah—Principles of Economic Planning.

reconstruction purposes. But for her political subjection, India would be in a strong position to make bargains if needed. She cannot live in isolation and must strive for a freer international trade while she develops her Industries for the production of essential consumer goods to meet the internal demand.

The proportion of India's foreign trade to her internal trade is so low that primary attention has to be paid to the internal market and the expansion of productive activities. Professor K. T. Shah suggests "internal trade to be progressively organized."¹ Within the country it must be free from any impediments. The country includes British India and Native States, some of which, like Kashmir, still maintain a tall customs barrier.

Hence the foreign export trade of India should not *unnecessarily* distract our attention from her internal trade which in the long run is of fundamental importance not only from the point of view of Indian consumers, but also from the point of view of industrial development in the future. Mr. Amery, ex-Secretary of State for India in an address to the British Institute of Export said, "India has in her all the latent resources of raw materials, of power and human skill to make her a great industrial country. To develop her own industries to the fullest possible extent, is the natural and proper ambition of all patriotic Indians. Its fulfilment will no doubt involve a very considerable diversion in character of India's import trade." It is quite possible, nay, probable, that India will import less of manufactured goods of a standard character after the war is over but it is not difficult to visualize "the well-nigh universal and ruthless competition which is going to be encountered by us immediately after the war is over and even during the throes of peace discussions"² as prophesied by Sir C. P. Ramaswamy Aiyer. To protect India against such 'ruthless competition' is the onerous duty of the Government and the people of the country, reconstructing, planning and working together.

A Consultative Committee of Economists was established in 1941 to make recommendations on India's post-war trade policy. It has held several meetings and made some useful suggestions. The consensus of opinion in the last meeting held under the presidentship of Sir Azizul Haque, Commerce Member, was in favour of a multilateral trading system with suitable provisions for the development of Indian industries; failing which bilateral agreements mainly with countries of the sterling bloc were

1. Inaugural address of Sir C. P. R. Aiyer at the B. Com. Degree College at Madras.

2. Quoted in 'Commerce', November 20, 1943, p. 706.

favoured. As Sir Azizul Haque said, "The war has taught us in India and I believe outside, that an industrially weak India is not a world asset, but a liability and that India not properly equipped is as much a menace internally as a menace to world peace."¹

At the close of hostilities in 1945 various big Indian industrial magnates including Messrs. Birla, Shroff and Tata, paid visits to the U.K. and U.S.A. to arrange purchases of capital goods for Indian industry. Sir Ardeshir Dalal, the Planning Member of the Government of India, also visited these countries with the same object. It was found that the United Kingdom was not in a position to supply India's needs in this respect to any extent for at least two years to come. Only the U.S.A. could do so but she wanted to be paid in dollars. India had no dollars to her credit. She, however, owned about Rs. 1500 crores of sterling bonds. Hence, her most urgent need at the present moment is to have a fair portion of these sterling balances, say Rs. 100 crores worth a year, converted into dollars to enable her to buy capital goods in the U.S.A. It is yet to be seen whether U.K. would be willing to do so.

It is visualised that for a few years to come India will import more than she exports. She stands in need of huge quantities of capital goods as well as fine consumer goods. She has learnt to utilise to advantage not only her own raw materials but is also importing more of them from abroad. Hence her favourable balances of trade will probably dwindle down but without detriment to her economic interests.

Pakistan will get consumer and capital goods from several continental countries; in return she will supply jute; cotton, hides and skins which are her monopoly. Agreements are being signed.

1. 'Commerce,' Nov. 20, 1943

CHAPTER XXI

INDIAN FISCAL POLICY

1. Importance of the Subject : The fiscal policy pursued in the past has had far-reaching effects on the industrial condition of the country. Its study will lead us to conclusions which might help in moulding opinions and policies to be adopted now that the war is over. On this policy would depend the fate of many 'war babies' as well as of old industries that will have to face the full blast of competition from foreign countries. Hence an intensive study of the problem at the present moment, when the war has thrown all previous relationships overboard and a reorientation of fiscal policy is in the offing, is of supreme importance to the student of Economics.

2. Fiscal Policy of India till 1923.—Period of free trade : The classical writers upheld the theory of free trade. They believed that every country should concentrate its energies in the production of commodities for which it was best fitted and import other goods from foreign countries similarly situated in relation to them. England had the good luck to have had a long start in the race for industrialization. Her industries had thoroughly established themselves before any other country thought of making any systematic efforts to follow suit. England thus stood in need of plenty of raw materials to convert into finished goods and big markets to sell them in. Free trade suited her and her economists advocated this doctrine in the belief that what was good for England was equally good for the rest of the world. Canada, Australia and other colonies of England including India followed in her wake willy-nilly. The two former had to make a severe fight to emancipate themselves from these trammels ; while India's fiscal policy was largely governed by British interests. Up to 1923 India followed a cent. per cent. policy of free trade and whatever duties were imposed on incoming goods were for revenue purposes only. Even these, however, often resulted in a great outcry on the part of Lancashire and in some cases counter-vailing excise duties were imposed. The long line of Finance Members during all these years were deeply dyed in free trade colour, and religiously believed in its efficacy as a measure of relief for the poor Indian consumer ; and even when they did impose custom duties in times of financial stringency, they felt very

apologetic over them and expressed heartfelt sympathy for the British manufacturer. Lord Curzon stated in a letter to the *London Times*, in 1908, that "ever since India was ordered to abolish her customs tariff in 1875, it has been in the main in response to Lancashire pressure that the successive readjustments of this policy have been introduced." Thus, if the duties imposed for revenue purposes only did result in creating any industries they were lowered with the double object of correcting the tendency and increasing customs income.

The War of 1914-1918 compelled the Government to raise the tariff. They found it impossible to lower it after the war was overdue to their need for more money. In 1922 the total Indian customs revenues was Rs. 32.14 lakhs as compared with Rs. 9.24 lakhs in 1909-14, a matter of Rs. 24.4 per cent. of the total revenue in place of only 13.9 per cent. These revenue duties happened to give some protection to a few industries in an unscientific manner but the Government were always uncomfortable and from 1919 onwards their efforts were constantly aimed at wriggling out of the situation that had arisen.¹

3. Arguments for Production in India: The main arguments for production are given below :—

(i) *The Infant Industry Argument.* Time is required for the development and growth of various elements of productive power, i.e., for the training of labour, mobilization of capital, giving experience and knowledge to the entrepreneur, learning and developing the necessary technique. During the time the industry is acquiring these essentials and sprouting forth, it must be sheltered, otherwise it will be blasted by foreign competition. A child requires crutches to learn walking and he must be first permitted to grow before he can be expected to wrestle with a grown-up man. The force of this argument has been recognized by economists of authority like Marshall and Pigou. Some Indian industries are undoubtedly in a state of 'infancy' and their protection from the competition of giant foreign concerns is absolutely essential, otherwise they will have little chance to grow. Lala Harkishan Lal said : "Nurse the baby, protect the child and free the adult." This is a maxim whose validity cannot be seriously questioned.

(ii) *For Diversification of Industry.* For the all-round development, mental and physical, of the nationals of the country, a large variety of employment is essential, for, an occupation that a man follows has an intimate bearing on the development of his

personality. No nation likes to be a nation of shopkeepers, clerks or agriculturists only. The quality of employment is as necessary as quantity. It is, therefore, necessary to develop industries even though they do not conform to the principle of comparative costs, i.e., even though the conditions are not congenial for growth. Only protection can enable such industries to develop. We have as yet developed a few major industries. To develop a host of other industries, protection will be necessary.

(ii) *For Defence.* Adam Smith says: "Defence is better than opulence." Dependence on foreign countries for some essential commodities proves dangerous in times of war. For a few years preceding the World War II, many countries, especially Italy and Germany, were making frantic efforts to grow or manufacture certain essential articles which they had to import, for a war cuts off the foreign supplies. This argument has a special force in case of 'key' or basic industries or food industries. In this war India has not been able to play the part it could if her important industries had been properly developed.

(iv) *For Self-Sufficiency.* In case a country desires to be economically independent, then it might, by means of protection develop the various types of manufacturing industries. In view of the present developments in means of communication and transportation, such an economic end is not feasible nor is it very desirable, for it will obviously mean a diversion of the resources of the country to less remunerative channels. But if the circumstances necessitate the adoption of such a policy, then a country like India or Pakistan will be within a measurable distance of realizing this aim.

(v) *For 'Key' Industries.* Foundation of a country's industry will be merely on sand if it has to import the necessary basic materials like iron and steel and chemicals from abroad. The application of protection for the development of basic or 'key' industries seems to be most urgently called for. The development of such industries should claim the first attention and no effort should be spared for the purpose.

(vi) *Against dumping.* If another country is dumping goods in our country which can only result in the killing of home industry, protection is necessary in sheer self-defence. The foreign country, by dumping, seeks to capture the home market and is likely to more than make up the loss by raising price later when the home industry has been destroyed. No nation can permit her industries to be destroyed in that manner.

(vii) *Against Bounty-fed Goods.* The home manufacture must be protected against competition from goods which are being supported by the State bounties in their own country. The bounty from the State gives them an unfair advantage which it is the duty of the Home Government to remove by imposing a protective duty. Indian sugar industry was killed by bounty-fed sugar from Europe.

(viii) *Against Goods coming from Countries with Depreciated Currencies.* Depreciation of yen (Japanese currency) in the thirties neutralized to some extent the protection granted to our cotton textile industry and the measure of protection had to be increased. The country with a depreciated currency is able to export goods much more cheaply, for the purchasing country has to pay less of her own currency for a unit of the currency of the exporting country. It then becomes the duty of the other country's Government to negative this artificial and undue advantage.

(ix) *For Revenue.* Sometimes protective duties are advocated on the ground that they will yield the State additional revenue. To some extent it is true. A moderate measure of protection does bring some revenue. But it should be borne in mind that there is inherent antagonism between revenue and protection. If the industry has been given effective protection, then the foreign goods will have no chance to sell and they will not be imported and hence no revenue. In 1934 proceeds from sugar import duty in our country considerably dwindled and the Government had to impose excise duty on sugar. If, on the other hand, a country wants revenue, it can get it only if foreign goods come in, in large quantities. That means home goods will meet keen foreign competition and there will be no protection. Either you can, therefore, give protection or get revenue. Further, protection *via* revenue duties is not a sound policy, for it will mean uncertainty and lack of continuity. If, therefore, protection is to be given no extraneous considerations of revenue should be permitted to enter.

(x) *For Increasing Employment.* Another ground on which protection is urged is that the development of industries in the country, as a result of the policy of protection will, in the long run, create larger volume of employment in the country. On grounds of pure theory this argument is unsound. As exports pay for imports, the country will be able to exports less, if it imports less. Thus the expansion of her import industries will be counterbalanced by contraction of the export industries and the volume of employment may not be affected. But in case of

India, the argument has some applicability, for her export industries, for the time being, hardly exist. Her raw materials are indispensable to others. If by means of protection she are able to eliminate foreign goods from her markets, a vast field will open out for the expansion of the industries and the volume of employment will undoubtedly increase. Our economy is at present unbalanced. To restore a proper balance between agriculture and industry is our prime need. A policy of effective protection will be eminently suitable for this purpose.

(xi) *For its Popularity in India.* Indian sentiment has been and is strongly protectionist. The remarkable progress of industries in U.S.A., Germany and Japan under a policy of protection, a recent swing round to this policy in England herself and the ruin of Indian industries under the policy of free trade have made all educated Indians ardently desire protection for Indian industries, and they are sometimes prone to regard protection as a panacea for all the industrial ills of the country. We should, therefore, pursue vigorously this policy of protection and it will have a strong popular support.

4. Drawbacks and dangers of protection : But protection is not a painless remedy. It involves sufferings, sacrifices and dangers which must be intelligently appreciated and understood and carefully avoided or minimized. *In the first place, imposition of protective duties will raise the prices of the protected articles and the consuming public will suffer for having to pay higher prices.* The agriculturist who has no surplus to sell and the worker, whose wages will generally lag behind the increased cost of living, will have to make some sacrifices. *Secondly, whereas the public loses, the rich manufacturers gain.* This accentuates the inequalities of wealth distribution by adding to the wealth of the already rich and requiring the general public to make a sacrifice. The Tariff Boards and the Government of India have steadily kept in view the interests of the consumer. We cannot, however, agree that the burden of protection is borne entirely by the poor masses in India. With the exception of matches and salt, the articles turned out by the protected industries like iron and steel, sugar, the fine cotton fabrics, cement, paper, etc., are not articles of consumption for the poor masses. It is borne by the middle classes and they do not certainly mind it, because they can better understand where the good of the country lies. *Thirdly, the industries in the unprotected category will be hit* because they will have to pay higher prices for some materials or pay higher wages without having any compensatory advantage like the industries enjoying protection. Cotton handloom industry has suffered from protec-

tion granted to the cotton-mill industry ; and when the iron and steel industry was given protection, some allied industries had also to be given a corresponding measure of protection. *Fourthly, there is the danger that vested interests will be created by protection.* The industries that will secure protection will be found to be highly reluctant to part with it. They will strain every nerve to retain it. Thus the 'infants' may remain infants and refuse to admit that they have grown up. But this danger can be obviated by withdrawing protection on the ground that the industry is incapable of benefiting by it. *Fifthly, there is the danger of political corruption.* Powerful corporations in America set aside huge sums in bribery funds to be systematically spent in influencing legislators or the election of legislators. Once therefore protection has been granted, it may not be so easy to withdraw. But the Fiscal Commission did not see any such danger in India, the Legislatures being composed of so varied elements. *Lastly, protection is regarded as mother of Trusts.* It is the experience of Germany and America that once foreign competition has been eliminated, the home manufacturers form combinations in order to reap monopoly benefits. Although an All-India Sugar Syndicate and a big merger, A.C.C., have been established in India, yet the combination movement has not made much headway here. Further, combinations are no longer regarded in the West as inimical to public interest and the combination movement has been consciously fostered by the State.

On the whole, therefore, we find that a policy of protection in India is not only desirable but necessary. Its dangers have been exaggerated and costs magnified. This does not mean that she can launch on an indiscriminate and a blind policy.

5. Circumstances Leading to Discriminating Protection : The War of 1914-18 brought protection to many infant industries in India. The Government of India during the period realized the need for helping the industries mainly to strengthen the Imperial power. An industrial Commission was appointed in 1916 which submitted its report in 1918 and recommended that the Government should play an active part in the development of India of industries so as to make the country self-sufficient "in respect of man and material." During the war the British Parliament committed itself to a political advancement of India. Such an advancement was impossible without the grant of at least some fiscal freedom.

6. The Fiscal Autonomy Convention : Since Parliament was not willing to concede full Fiscal Autonomy to India by Statute, a compromise was suggested by the Joint Select Com-

mittee on the Government of India Bill, in these words: "Whatever be the right fiscal policy for India, it is quite clear that she should have the same liberty to consider her interests as Great Britain, Australia New Zealand, Canada and South Africa. In the opinion of the Committee, therefore, the Secretary of State should as far as possible avoid interference on this subject when the Government of India and its legislature are in agreement and they think that his intervention, when it does take place, should be limited to safeguarding the international obligations of the Empire or any fiscal arrangements within the Empire to which His Majesty's Government is a party." This is the famous Fiscal Autonomy Convention.

A Convention, it may be noted here, is a custom, tradition or practice, which is generally accepted though it has no basis in law. It can have the same force and prestige as law.

This principle was accepted by the Secretary of State and it became the basis of commercial relations between India and the United Kingdom. Following this Convention the Secretary of State refused to interfere into the cotton duties imposed by the Indian Government when he was approached by Lancashire interests in March 1921.

7. Criticism of Fiscal Autonomy Convention : The Convention has been criticized on various grounds. It is said that it could not have any great practical value, since it can only operate if certain essential conditions are fulfilled. These conditions are difficult to fulfil in actual practice. The first condition is that the Government of India and the Indian legislature should be in agreement with each other. While the Government of India is an irresponsible foreign bureaucracy, the legislature represents the aspirations of a subject people. For their normal relations they are more in conflict than in agreement. The Government of India never agreed to a policy, however advantageous to India, which involved any sacrifice of British interests.

The second condition is that purely Indian interests should be involved. What exactly this expression means. In the modern inter-dependent world it is hard to take a step which involves only the interests of one country.

Further it is pointed out that even the Indian legislature does not adequately reflect the real opinion of the Indian people. It is not composed (under the Act of 1935) of entirely elected representatives. A fairly large proportion consists of officials and nominated non-officials who in matters of important issues always vote with the Government.

Most people, therefore, thought that the method of conventions had not effectively granted autonomy to India in fiscal matters. The issues hinged mostly on the personal idiosyncrasy of the Secretary of State.

8. The Fiscal Commission : In the meantime a resolution had been moved in the Imperial Legislative Council in February, 1920 recommending the appointment of a committee of the Council to report on the desirability of the policy of Imperial Preference. This committee suggested the appointment of a Commission to examine the whole fiscal policy of India.

In 1921, therefore, the Government of India announced the appointment of the Indian Fiscal Commission "to examine with reference to all the interests concerned, the Tariff policy of the Government of India, including the question of the desirability of adopting the principle of Imperial Preference and to make recommendations." The Commission in their Report recommended discriminating protection."

9. Discriminating Protection : According to this policy protection is not to be accorded indiscriminately to every and any industry. But the case of an industry claiming protection is to be carefully examined and protection is to be granted only if it satisfies certain conditions, so that the dangers inherent in protection and the sacrifice involved should be minimized. The conditions laid down by the Commission in this connection are popularly known as the "Triple Formula."

10. Triple Formula : A triple formula embodied the conditions which had to be fulfilled by the applicant industry before it could be granted protection. This formula was as follows :—

(i) The industry to be protected must possess natural advantages, such as plenty of raw materials cheap power, sufficient labour and a large home market without which the industry would become a permanent burden on the country.

(ii) The industry must be one which, without the help of protection, is either not likely to develop at all or not rapidly enough to serve the interests of the country.

(iii) The industry must be one which will eventually be able to face world competition without protection.

11. Subsidiary Conditions : In addition to the above formula the Commission laid down a few more conditions of a lesser importance. For instance (a) an industry which could produce on a large scale with increasing returns or diminishing costs was to be considered as more suitable for protection. (b) An

industry, which was expected to meet the entire needs of the country in course of time, was recommended a preferential consideration. (c) An industry essential for national defence as well as basic and key industries were recommended protection even if they did not fulfil the above conditions. (d) Special measures of protection were recommended against the imports of goods dumped into India; or if the goods came from countries with a devalued or depreciated currency and thus gained an unfair advantage over Indian manufactures. (e) Similar steps were recommended against bounty-fed imports.

The majority of the Commission were solicitous that the industrial development of India should not take place at the expense of British interests. They plainly stated, "We do not forget that the U.K. is the heart of the Empire, that on its strength depends the strength and cohesion of the Empire..... Unless the U.K. maintains its export trade, heart of the Empire will weaken and this is a contingency to which no part of the Empire can be indifferent." That is why the recommendations of the majority for protection of Indian industry were so halting in nature and were so much hedged in by provision and conditions.

The minority, too, led by the President, did not want 'indiscriminate protection', but they did want India to be treated as an infant country, which in effect she was from the industrial point of view. They recommended her a liberal dose of protection and less delay in granting it.

Whether protection should be granted to young or old industries, no hard and fast rule can be laid down. In the case of old and established industries, there is generally some valuable data to go upon and consequently there is less risk and uncertainty in granting protection to such industries as compared with those which are comparatively young. But in case of young industries reliable data may be obtained from other countries and hence there may be surer grounds for protection, whereas in a new branch of an old industry there may be greater element of speculation. At any rate some element of uncertainty there is bound to remain, whether the industry is old or young. Generally the policy of discriminate protection is intended to help young industries but sometimes an old industry may have to be rescued from a difficult situation and protection may be the only means of doing so. The young industries are to be helped by bounties rather than by import duties. But it is not the age of the industry which is the criterion for granting protection. The criterion is the fulfilment of the chief conditions laid down by the Fiscal Commission.

As for the measure of protection, several considerations have to be taken into account. The rate is not to be so high as to involve an unnecessarily heavy burden on the consumer or so as to send the industry to sleep by making it an easy affair when foreign competition has been eliminated and that it may have no inducement or feel no necessity of making improvements or effecting economies. In order to arrive at the fair selling price, costs of production of an average firm must be taken and not those which are either at the top in efficiency or at the bottom, because the aim is not to prop up weak and inefficient concerns but to assist the reasonably efficient ones.

12. Indian Tariff Board : The Fiscal Commission recommended the appointment of Indian Tariff Board to carry on the necessary investigations into the claim of an industry for protection and make suitable recommendations. It is supposed to be a body of experts and is an *ad hoc* body constituted from time to time whenever the case of an industry for protection has to be considered. It generally consists of a President and two member, one of whom is ordinarily a Government official. It conducts a detailed inquiry into the condition of the industry by making a study at the spot. It examines witnesses and considers memoranda from various individuals and organizations who desire protection or who are likely to be affected if protection is granted. It is for the Tariff Board primarily to consider whether the conditions laid down by the Fiscal Commission for the grant of protection are fulfilled by the industry. After making a full inquiry and after considering all the relevant facts, it makes a recommendation to the Government regarding the measure and the period of protection. The Tariff Board is also called upon to review the whole matter on the expiry of the period of protection. In short, the application of the principles of protection depends on this body. Thus the realization of the aims of the policy of protection will largely depend upon the composition and the personnel of the body and the spirit in which they work. If they interpret the conditions in a reasonably liberal manner, protection may be productive of good results ; and if, on the other hand, they adopt too rigid and unsympathetic an attitude, nothing may come out of this policy. The first Tariff Board was appointed in 1924 in connection with iron and steel industry and the last in 1939 for Sericultural industry.

13. Policy of Discriminate Protection Examined : There is no gainsaying the fact that this policy has enabled India to develop some industries and save others from destruction. Iron and steel, cotton, sugar and paper industries are deeply indebted to this policy.

But this policy has met with strong criticism on the part of some Indian economists.¹ Some would say it is all discrimination and no protection. According to Mr. B. P. Adarkar, "The discriminating protection in India.....has vouchsafed nothing better than a perfunctory assistance, indifferently and grudgingly rendered to industries whose subsequent development has been left to take its own course" The policy of discriminate protection has not fulfilled the expectations of ardent industrialists in India nor does it inspire confidence in them. The results that it has produced in India during the last 20 years can stand no comparison with what has been achieved in Russia, Japan and Germany in the same period. We are still predominantly an agricultural country and still far away from our ideal of industrialized Pakistan.

The fact is that the conditions laid down for the granting of protection are anomalous and too severe. The first two conditions seem to be incompatible. If an industry enjoys such natural advantages, why should it not be able to grow without protection? It will not need protection. The third condition is merely a matter of opinion and imports too much of a personal element. Further, why should an industry be denied protection if it has no home market but a large export market. Also, an industry can very well thrive even if it has to import some raw materials. But such an industry will not get protection under the present scheme. Not many industries in foreign countries can satisfy such conditions and they would have never developed if they had also to submit to such tests. Moreover, this policy can take into consideration only those industries which have already come into existence and it cannot build new industries or bring new industries into existence.

The constitution, composition, functions and the procedure of the Tariff Board are not such as to render an effective and timely aid to the industries. The members are selected by the Executive which also fixes the terms of reference. They may like to be appointed again or seek some other official favour. People who bask in official sunshine cannot be expected to take an independent attitude. Even then their hands are tied by the terms of reference. For every industry, a new Tariff Board is appointed. They thus lack width and continuity of experience. Their outlook is narrow and whatever experience and knowledge they gain in the course of the enquiry is lost, for next time a new board is

1. Vide Vakil and Munshi—Industrial Policy with special reference to Tariffs; B. P. Adarkar in Industrial Problems of Modern India, edited by P. C. Jain; D. K. Malhotra—Review of Indian Fiscal Policy; B. P. Adarkar—Indian Fiscal Policy.

constituted. They are not asked to look beyond a particular industry. It is complained that they have adopted too judicial an attitude and in their desire to keep the scales even, they have failed to show full sympathetic understanding of the needs of Indian industry. Foreign interests must have influenced their decision when Imperial Preference was grafted on protection in 1927 in case of steel industry and in 1930 in case of cotton textile industry. Besides, the procedure is too dilatory. The Tariff Board moves in a leisurely fashion from place to place and report is prepared at the convenience of the members and then the Government takes its own time. Sometimes more than a year elapses before the report is published. The Government devotes some time to the formulation of its own proposals and their passage in the Assembly also requires some time. Such a slow-moving machinery cannot be expected to meet the situation on the commercial front which undergoes rapid changes. The industry may be dying but no instantaneous relief can be given. It is the case of Nero fiddling when Rome is burning. In several cases the recommendations of the Tariff Board—an expert body—are turned down by Government. Periodically recurring inquiries import an element of uncertainty. It does not speak well of this policy when we remember that cement, glass, coal and oil, woollen, printers' ink industries were denied protection. There are several industries which deserve encouragement, but have not yet been considered for protection at all, e.g., aircraft, automobile, ship-building, tanning, electrical goods, pharmaceutical, handloom weaving, soap, etc. The trouble is that there is nobody which can act on its own initiative. The policy of discriminate protection has been considered halting and unsatisfactory.

In other countries like U.S.A. and Australia, there are permanent Tariff Commissions whose duty it is to keep a watch over the whole industrial field and take action if anything goes wrong. The Import Advisory Committee in Great Britain can also act expeditiously. What is wanted here is a large body of experts enjoying independent and permanent tenure like the High Court Judges who should have full discretion in the performance of their duties. They should be in a position to render aid to industries which should be automatic, expeditious and effective.

14. Discriminating Protection in Practice—The Iron and Steel Industry: Several major industries have been given protection. We shall deal with them by turns. The modern iron and steel industry came into existence with the establishment of Tata Steel Works at Jamshedpur in 1907. The Company started producing steel in 1913 and made remarkable progress during the

Great War I. After the war was over the industry had to face severe competition from abroad and incurred heavy losses. Its case was referred to the Tariff Board in 1923, who found after inquiry that in a few years India was capable of producing enough steel for her domestic requirements at as low costs as obtained in other countries. On the basis of making up the difference between the import price of steel and its fair selling price in India the Tariff Board recommended duties ranging between Rs. 30 and Rs. 45 per ton for 3 years. Enquiries were made from time to time in the position of the industry (in 1924, 1925, 1926 and 1933). In the last inquiry in 1933 protection was continued for a further period of 7 years.

The war has given a great stimulus to the industry and it had been estimated that it will be able to hold its own against world competition without Government help after war is over. Many subsidiary industries have sprung up round the main industries and the ideal of self-sufficiency been almost attained. A number of special steels are being manufactured and it is expected that at the end of war, India shall meet a large proportion of her need for tool steel, taps, dies and small machine tools of special quality herself. The Tata Iron and Steel Co. have put up a new plant for the manufacture of wheels, tyres and axles for railway rolling stock.

India produced 28% more of steel in 1942-43 than in 1938-39. Most of the output was absorbed by Government for war and civilian consumption was cut down largely. No steel or iron goods could be obtained after 1941 without license from the Iron and Steel Controller. It is obvious that the vast reservoir of private demand which is being thus built up will insure the industry against any dislocation after the war is over and the flow of war orders stop suddenly.¹

It gives employment to no less than 1,50,000 people. Its progress can be judged from the following figures.

TABLE 1²*Production and Imports of Steel in Indja.**(In Thousand Tons.)*

Year	PRODUCTION		IMPORTS	
	Pig Iron	Finished Steel	Pig Iron	Steel
1924-25	552	2.48	3	889
1938-39	1,576	7.26	3	264

1. The Review of the Trade of India—1942-43, p. 38.

2. Statistical Abstract of India.

15. Cotton Textile Industry : The first cotton factory was established in 1854. The industry is a very old one and can in no case be called an infant industry. It has had a chequered history and has passed through many vicissitudes. The rise of Swadeshi sentiment in the first decade of the century helped it and the war (1914-18) still further stimulated it. So in spite of the *laissez faire* policy of the Government, the imposition of excise duties and an unfavourable exchange rate, industry progressed.

After the crisis of 1921-22, however, the industry had to face severe competition from cheap Japanese goods manufactured on a double-shift system with sweated labour. The Tariff Board considered it a suitable claimant for protection which was granted in ever-increasing doses after inquiries ranging from 1926 to 1935. This protection was entirely an anti-dumping measure and has been of very great benefit to the industry as is clear from the following table :—

TABLE II.¹

Year	Cotton-Yarn and Piecegoods. (In Million lbs. and Yards.)		Cotton Piecegoods.	
	Cotton Twist and Yarn	Imports	Indian	Imports
1926-27	807	49	2258	1788
1938-39	1303	36	4269	6 47

The total normal requirements of India are no more than 5,000 million yards of cloth and there is hardly any room for doubt that now after the war India will have attained complete self-sufficiency. In addition, she will also be in a position to satisfy some of the needs of the Middle East countries, with whom she has contracted intimate relationships during this war.²

The following table shows the total production of piecegoods and their exports during some war-years.

(In Million Yards.)

Year	Mill Production	Exports
1940-41	4270	390
1941-42	4494	771
1942-43	4109	819

Due to smaller mill production and increasing exports the Government promulgated a quota scheme for exports from July 1942. Exports to most countries increased, the most remarkable among them being Australia, 114 million yards (75 million yards) Iraq, 90 million yards (24 million yards), Iran 56 million yards

1. Ibid.

2. Vide Ch. XXVI, Trade in India.

(11 million yards), Ceylon 53 million yards (34 million yards), South Africa 56 million yards (23 million yards) and Sudan 45 million yards (19 million yards).

The exports of cotton twist and yarn sharply declined in 1942-43 as compared with the previous year.

16 Sugar Industry : Sugarcane is an Indian plant and has travelled all over the world from India. And yet foreign white sugar thoroughly established itself in India and no less than 5½ lakh tons of sugar were imported in 1931-32. The Tariff Board was convinced that the industry satisfied all the conditions of the Triple Formula and it was given protection at the rate of Rs. 7-4 per ton. The rate was enhanced by a surcharge of 25 per cent. in September, 1931 on account of financial stringency.

The protection granted to the industry has revolutionized it and India is now not only fully capable of satisfying all her needs for sugar, but has a surplus to export. The Government imposed an excise duty on the home product to stop overproduction and to weed out the inefficient concerns. With the utilisation of molasses—a by-product of sugar—for the production of power alcohol, the Indian industry will be able to set its house in order and reduce costs considerably.

The industry has grown remarkably as the following table shows and there is every reason to hope that in time it will squarely face the blast of foreign competition.

TABLE III
Production and Import of Sugar
(In Thousands of Tons.)

Year	No. of Factories producing sugar from cane	Total Production		Total imports of sugar.
		of sugar	of Gur	
1931-32	32	4.87	27.58	5.56
1938-39	139	7.65	32.48	33

The production of sugar for war years is as follows :—

(In Thousands of Tons.)			
1939-40	12.42	1940-41	10.95
1941-42	7.78	1942-43	10.71

Where previously the problem had been to check the over-production of sugar and restrictive measures (like excise duty) were being employed by the Government, as the war developed, efforts had to be made to manufacture more sugar. Civilian demand was greater than before due to more purchasing power. The requirements of the Defence Forces had increased. Indian sugar was also demanded for supply to the United Nations,

The International Sugar Agreement of 1937 under which India had agreed not to export sugar by sea to any country except Burma expired in 1942. India is now free to export sugar by sea. Sugar is in great demand in Ceylon, East Africa, Iraq, Iran, Pakistan and the Middle East. In the absence of Java sugar, India can secure a foothold there provided her domestic supply situation is satisfactory.

She exported

14,000	tons of sugar in	1940-41
19,000	"	1941-42
31,000	"	1942-43

17. Paper and Pulp Industry. Hand-made paper is one of the oldest industries in India but machine-made paper is not so very old, the first mill having been established in 1870 on the Hooghly while the Titaghur was started in 1882. The first war stimulated this industry too, like many others and like them it too was in difficulties after it was over.

The Tariff Board considered it for protection in 1924. It was found that the Sabai-grass product was too costly and had no eventual chance of facing foreign competition. Bamboo pulp was however, plentiful and cheap, and the industry had a sure long-range future, specially due to the increasing dearth of coniferous wood in Europe. Writing and printing paper was given protection at the rate of one anna per lb. Later (in 1935) a duty of Rs. 45 per ton was imposed on imported wood pulp to encourage the manufacture of bamboo pulp in India. In 1939 protection was continued for another 3 years but the duty on imported pulp was reduced to Rs. 30 per ton.

Indian machinery is not up-to-date and the methods, too, are improvable. Cost prices have, however, gone down considerably, from Rs. 227 per ton in 1924-25 to Rs. 123 in 1936-37, but only a further fall in cost will enable the industry to stand up to foreign competition. The War has given it a great stimulus. If the war profits are not frittered away in high dividends and are utilized to build up reserves, it would be possible to renovate and replace worn-out block capital now when the war is over.

TABLE IV
Production and Imports of Paper
(In thousand cwt.)

Year	PRODUCTION			IMPORTS			
	No. of Mills	Printing and Writing	Badami	Packing	Printing and Writing	Packing	Pulp
1932-33	11	604	87	48	829	325	307
1938-31	16	884	124	58	1,103	387	277

The increased local production as well as imports of paper go to prove that literacy is rapidly increasing in Indo-Pakistan and still greater local manufactures will hardly meet the increasing consumption. The industry has a great future.

As shown by the figures in the above Table, in spite of the wonderful progress of the domestic paper industry before the war India still depended on imports from abroad substantially. The imports from Norway and Sweden stopped altogether. The big gap left thereby could not be filled up by the imports from U.S.A. and Canada. Shipping difficulties were severe. Hence the production and distribution of paper had to be controlled and a "Paper Economy campaign" started. Ninety per cent. of the total production of paper was conserved for Government purposes, leaving only 10 per cent. for civilian use in 1942. In 1942, however, 30 per cent. of the current production of paper was set free for civilian purposes. The number of pages of all newspapers published in the country were limited and prices fixed.

The paper trade received a severe blow as a result of the war. India and Pakistan have vast raw materials and can develop a self-sufficient manufacturing position if paper machinery and technicians are available.

Production of Paper and Imports of Paper and Pasteboard in War years
(100 cwts.)

	Production		Import of Paper and Pasteboard.
1939-40	14,16	...	27,01
1940-43	17,53	...	21,03
1941-42	18,71	...	13,08
1941-43	18,21	...	4,16

There was less production of paper in India; 18,21,000 cwts. in 1942-43 as against 18,71,000 cwts. in 1941-42 owing to the difficulty of obtaining coal even though the number of mills working was the same as before, *i.e.*, 16.¹

18. Match Industry. Up to 1922 India was wholly dependent on foreign matches when a heavy revenue duty of Rs. 1-8 per gross (amounting to more than 100 per cent. *ad valorem*) was levied on matches imported from abroad. Behind the shelter of this duty were born a few small concerns. They applied for protection, and after the Tariff Board had pronounced its verdict in favour, the revenue duty was transformed into a protective duty at the same rate.

1. The Review of the Trade of India, 1942-43, p. 45.

As the result of the raising of this high tariff wall, the Swedish Match Company, a combine which controls 70 per cent. of the total world demand, established itself in India and today controls no less than 60 per cent. of Indian demand¹. So far no steps have been adopted in India to control the monopolistic activities of this combine. Many of the smaller concerns have gone into its maw or a controlling influence acquired over them by the purchase of their capital in the open market.

The Government's attitude in this connection had been reassuring, and it is hoped that requisite steps will be taken now when things are settled down.

The present condition of the industry is illustrated by the following table:—

TABLE V
Matches—Output and Import
(In million gross)

Year		Indian output		Imports
1932-33	...	19	...	6.14
1938-39	...	21	...	1.26

19. Heavy Chemical Industry. Heavy chemicals are of two kinds, the acids—sulphuric, hydrochloric and nitric—and the compounds based on them and the alkalies like soda ash, caustic soda, sodium sulphide, zinc chloride, etc. The chemicals included in the second group were never manufactured in India, while a start with those in the first group was made during the period of World War I. The unit of production was, however, small and the cost of production was high. Severe foreign competition and a rising exchange rate involved the industry in difficulties.

The case was referred to the Tariff Board who, after thorough investigation, declared the industry a basic one and recommended protection in spite of the fact that an important raw material, sulphur, was not available in India and was imported.

The protection recommended was (a) the conversion of the existing *ad valorem* revenue duty into specific protective duties, (b) a bounty of Rs. 18 per ton on superphosphates used as fertilizers, and (c) a reduction in railway freights. The Tariff Board suggested a reorganization of the industry on a larger scale with the help of a national combine. Another enquiry into its affairs was suggested after 7 years.

1. It is known in India as the Western India Match Company, in brief Wimco.

The Government granted protection for less than two years and then discontinued it on the grounds that combination had been found impossible and the industry had not yet fully developed.

During the current war the importance of the industry for national defence has been fully realized. In addition, it is a key industry for almost the entire field of productive activity—both industrial and agricultural. A liberal policy of protection is very essential in its case.

20. Minor Industries. A few minor industries that satisfied the conditions laid down by the Fiscal Commission have also been granted protection, e.g., salt, magnesium chloride, plywood, tea chests and gold thread industries. They have prospered as a consequence. Naturally their cases will be gone into now the war is over and their term of protection is up.

A duty of 15 annas per maund was levied on the imports of broken rice into India, specially Madras, from Malaya and Thailand. Madras was not only losing its self-sufficiency in food but the agriculturist was also being hit hard.

In the days of acute distress indigenous wheat was also helped through a custom duty of Rs. 2 per cwt. on foreign imports.

21. Industries Denied Protection. There were some industries which were either not recommended protection by the Tariff Board or were refused protection by the Government. The major industries which were denied protection were cement, oil, coal and glass.

The cement industry was suffering from severe internal competition and was also faced by foreign competition after the first War. The Tariff Board, therefore, recommended bounties to help it, but the Government did not accept the recommendation as the difficulties of the industry, in their opinion, were mainly the result of internal cut-throat competition. As it is, the industry has now established itself strongly and is fully capable of taking care of its interests. The following table shows the position of the industry:—

TABLE V
Portland cement—Output and Imports
(In thousand tons)

		Output	Imports
1932-33	...	593	80
1937-38	...	1,170	...
1938-39	...	...	16

The kerosene oil industry was also refused protection on the ground of class-war.

The case of coal industry which was suffering from the competition of bounty-fed South African coal was considered by the Tariff Board in 1925. The Board unanimously refused to recommend protection as they believed the future of the industry did not devolve on it.

The case of the glass industry was referred to the Tariff Board in 1932. They recommended protection without a dissenting vote, even though the industry was dependent on imports of soda ash—an important raw material. The Government turned down the recommendation on this very ground.

21. Imperial Preference. Imperial Preference means “the expansion of Empire trade brought about as far as possible by the lowering of tariff barriers as between the several members of the Empire.”¹ The idea had been in the field for a long time. It was in operation in the old form as long ago as the 17th and 18th centuries in England. Preference for the exports of the mother country was compulsory then. The new system, however, leaves the various units of the Empire at complete liberty to regulate their tariff and then to allow some concession to the Empire goods voluntarily. Thus preference would involve no relaxation of protection nor would it be of a type to invite reprisals.

It was in the time of Lord Curzon in 1903 that India's attitude towards Imperial Preference had to be officially defined for the first time. Taking into account the character and direction of India's trade the Government concluded that the adoption of a preferential or protective tariff would be prejudicial to her interests. India was a debtor country and the major portion of her net annual obligations to England were secured by an excess of exports over imports in her trade with non-Empire countries. Thus there was a real danger of reprisals. On later occasions, too, the Government of India consistently opposed a general system of Imperial preferences.

The Indian Fiscal Commission considered the question in 1921, and remarked that the advantage of a preference policy was likely to be greater for imports of manufactured goods than for exports of raw materials. They held that it was not proper “that India should be called upon to bear an additional burden on top of discriminating protection for the furtherance of interests which are not primarily Indian.”¹ The Commission were, how-

1. Baldwin—Ottawa Conference.

2. Fiscal Commission Report, p. 119.

ever, in favour of discriminating preference on a few articles as a free gift to England after examination by the Tariff Board and with the approval of the Legislature and if there was no appreciable economic loss to India. They remarked: "We would not have India in a position of moral isolation within the Empire; a free gift from India, however small, would be welcomed as a gesture of friendship¹ and as a proof that she realized her position as a member of the Empire."

Accordingly some protection was given to imports of British steel in 1927, and textiles in 1930. Thus India followed in the footsteps of the Dominions which had given extensive preference to the mother country since 1920.

22. The Ottawa Agreement, 1932: In 1932, India's fiscal policy changed as the result of a change in the British fiscal policy. The United Kingdom discarded free trade in favour of protection and Imperial preferences at Ottawa. If India did not follow Britain she was in for a loss. Ottawa Agreement between the United Kingdom and India served primarily as a measure of insurance against potential losses in the Empire markets.² India would have fared badly if she had not accepted the Pact after the United Kingdom had adopted protection with a comprehensive system of Empire preferences. India's exports would have had to face severe competition in the British market and British tariffs would have gone against India in case she had rejected the Ottawa Agreement.

The Agreement was confirmed by the Indian Legislative Assembly in 1932 for 3 years. As a result India gave $7\frac{1}{2}$ per cent. preference on certain classes of motor vehicles and 10 per cent. on some other goods. Thus while the duty on some non-Empire goods like spirits, perfumes, electric bulbs, etc., was 50 per cent., British goods of the same type paid 10 per cent. less i.e., 40 per cent. British motor cars paid 30 per cent. against $37\frac{1}{2}$ per cent. of those of foreign make and while some other foreign goods paid 30 per cent., British goods escaped with only 20 per cent. In the reverse direction Britain granted India a 10 per cent. preference on several commodities and she allowed some others to enter free of duty.³

1. Ibid.

2. B K. Madan—*India and Imperial Preference*, p. 119.

3. For a full discussion of the grouping of commodities and the effects of preference on their trade, see Madan, *op. cit.*, p. 54ff.

This Agreement was terminated by the Assembly in 1936, but was renewed the same year. Then it continued till 1939, when the Indo-British Trade Agreement replaced it.

23. Effects of the Ottawa Agreement on India : A controversy has long raged over the issue whether the Ottawa Pact has resulted in gain or loss for India. The Government position has been that the Pact has been of inestimable benefit to India while the nationalist view has given an equally emphatic verdict against it.

That Indian exports to England and British exports to India should increase is but a natural consequence of the preference policy. This is, however, only a superficial view. But it is not an easy job to calculate the precise effects of the Pact. The Great Depression of 1929, the growth of intense economic nationalism in Europe and the creation of currency blocks all over the world make it all the more difficult to judge these results. Dr. Madan has adduced complete figures to prove that the Agreement had a high 'insurance value'.¹ Greater exports to the United Kingdom are beneficial only if there is no corresponding contraction in exports to non-Empire countries *i.e.*, if it is not 'a mere diversion of trade'. It cannot, however, be denied that the United Kingdom gained a much greater advantage than India from the Agreement.

24. Industrial Co-operation : This co-operation (which is the basis of Empire Free-Trade or Preference schemes) between India and the United Kingdom can only be on the basis of the latter's recognition of the fact that India is going to industrialize herself and that England should content herself with supplying India's needs in the way of capital goods, machine tools and fancy goods of a quality India is yet incapable of making for herself. When India can manufacture these the United Kingdom should adapt herself to supply the changing needs of India. The Indian market is a vast one. With a rise in the standard of living of Indian masses, their demand for superior goods is bound to increase, thus providing a changing but over-increasing opportunity to the United Kingdom for marketing her goods in India.

25. The Mody-Lees Pact (or the Bombay-Lancashire Agreement), 1933. A British Textile Mission headed by Sir William Clare Lees arrived in Bombay in September 1933. It negotiated an agreement with Mr. (now Sir) H. P. Mody, the President of the Bombay Millowners' Association. This Agreement gave considerable differential advantages (preferences within protection)

1. Imperial Preference, *op. cit.*

to the United Kingdom and "arranged for the extension of Indian goods of many advantages secured for British goods in Empire and other overseas markets, as well as for India's participation in any quota allocated to the United Kingdom."¹ It also promised effective action to promote the use of Indian cotton in Lancashire mills. The Agreement was later embodied in the Supplementary Indo-British Trade Agreement in 1935.

26. Supplementary Indo-British Trade Agreement, 1935:

In January, 1935, a supplementary agreement was signed between India and the United Kingdom amplifying the 1932 Agreement and granting further privileges to the British Industry in India. Its important provisions were as follows :—

- (a) That the protection given to any industry should not be greater than was just enough to make the selling prices of goods made in India equal to the prices of imported goods and wherever possible lower prices should be levied on British goods;
- (b) that when substantive protection was to be granted to any Indian industry, full opportunity should be given to concerned British industries to argue their case before the Tariff Board;
- (c) that even during the course of protection a request by the British Government should move the Government of India to review the situation and revise the protective rates if so needed; and
- (d) that the British Government undertook to popularize the use of Indian cotton and to continue to import Indian pig-iron free of duty but only so long as the current preferences on British steel in India continued at the same rates.

The Agreement was thrown out by the Indian Legislative Assembly but was certified by the Viceroy and continued in operation till 1939, when some redundant clauses were allowed to lapse and a new Agreement signed.

27. The Indo-British Trade Agreement, 1939: Negotiations between the two parties went on for a long time—about 3 years—before a Bill was presented before the Assembly to replace the earlier pact. It was rejected *in toto* by the House, but was again certified by the Governor-General, thus proving that the fiscal freedom granted to India was in name only. Its main provisions were as follows :—

1. Madan, *op. cit.*, p. 162.

(1) India granted $7\frac{1}{2}$ to ten per cent. preferences on 20 articles imported from the United Kingdom, e.g., 10 per cent. on chemicals, paints, sewing machines, etc., and $7\frac{1}{2}$ per cent. on motor-cars and cycles.

(2) The exports of Indian cotton to the United Kingdom were linked by a sliding scale with the imports of cotton piece-goods from the United Kingdom.¹

(3) Most-favoured nation treatment based on preferences was mutually agreed between India and the other Empire countries.

(4) The United Kingdom on her side gave preferences ranging between 10 and 20 per cent. on some scheduled Indian goods and allowed free entry to a few others when a similar goods of a non-Empire origin were being taxed. Indian pig-iron was given a free entry till 1941, when duties might be imposed on it if India imposed duties on British steel.

28. The Agreement Reviewed: The mere fact of the certification of the Agreement by the Governor-General aroused keen resentment. It also met with the disapproval of Indian commercial interests on various other grounds. The recommendations of the non-official Indian advisers for protection of Indian shipping and banking concerns against British discrimination were turned down. It is believed that while the benefits accruing to the British industry as a result of the Agreement are substantial, those which India gains "have mainly a negative insurance value".²

The sliding scale arrangement linking up exports of cotton piecegoods from the United Kingdom to India and imports of cotton from India is nothing less than "heads I win, tails you lose" kind of bargain in favour of the United Kingdom.³ The Indian goods were allowed a free entry in England, e.g., jute, myrobalans, lac and mica, practically an Indo-Pakistan monopoly—and raw materials badly needed by England. The reduction in the preference on Indian chrome leather and carpets is another ground for complaint. Moreover, "a large number of India—commodities which receive preference in the United Kingdom meet with severe competition on equal terms from within the Empire while the United Kingdom enjoys an exclusive preference in India."⁴

1. For details of the scale see B. P. Adarkar, op. cit., 561.

2. Jathar and Beri—Indian Economics, Vol. 2, p. 630.

3. B. P. Adarkar, op. cit., p. 561.

4. Madan, op. cit., p. 242.

The Agreement is, however, a distinct improvement on the Ottawa Pact of 1932. Altogether, "the scope and degree of preferences exchanged appear to make a fair deal on the whole." The case of the cotton articles is different. The dice are heavily loaded in favour of the United Kingdom in the prescribed sliding scale. It would be well to remember that India cannot afford to be out of the preference circle as otherwise her exports would meet with heavy duties in the Empire markets, the only sure thing in an unsure world. Considering the fact, however, that the United Kingdom gains solid benefits in the Indian market she would be all the better off if she removed the genuine complaints of India and Pakistan and secured their good-will.

29. Bilateralism in India's Fiscal Policy: *The Indo-Japanese Pact of 1934.* In addition to India's bilateral relations with the United Kingdom as discussed above, she concluded a trade-agreement with Japan in 1934. Japan had greatly depreciated her currency, the yen. Her exports of cloth put the Indian industry in a very precarious position. Even a duty of 50 per cent. *ad valorem* on imports of non-British cloth imposed in 1932 did not enable the Bombay cloth mill industry to face Japanese competition: The Government of India gave the necessary six months' notice to Japan to end the most-favoured-nation relationship entered into with her in 1904. This denunciation of the Indo-Japanese Convention of 1904 moved Japan to boycott Indian cotton and enabled the Government of India to raise the duty on foreign piece-goods to 75 per cent. *ad valorem*.

A Japanese delegation came to India in October, 1933, and a new Agreement was signed between the two countries in 1934. It consisted of a Convention and a Protocol. The Convention provided for the extension of most-favoured-nation treatment to each other while both parties reserved the right of levying special custom duties when required to correct the effects of changes in the value of the yen or the rupee after January 1, 1934. The Protocol linked the imports of Japanese piecegoods on the basis of a sliding quota with the exports of raw cotton from India. Japan could export 325 to 400 million yards of piecegoods to India against imports of one to one and a half million bales of raw cotton in a calendar year. A variation in imports of 10,000 bales of cotton was to be adjusted against $1\frac{1}{2}$ million yards of cloth in exports between the fixed limits. The duty on Japanese piecegoods was lowered from 75 per cent. to 50 per cent. *ad valorem*.

The treaty removed all bitterness of feeling between the two countries and benefited both the Indian grower of cotton as well

as the Japanese manufacturer. As time passed the Indian mill-owners, however, complained of evasion of the spirit of the treaty by Japan, for she started large quantities of rejected cuttings of cloth-pieces known to the trade as *fents* which were not only outside the quota, but also paid a lower custom duty. Japan enlarged her exports to India still further by sending ready-made clothes and artificial silk goods which too were not included in the quota. Further, cloth of greater width than a yard was exported to India. In fact, all kinds of ingenious plans were adopted to sell in the Indian markets more than the prescribed quota of piecegoods. In addition large quantities of all kinds of miscellaneous manufactured goods like crockery, cycles, toys and umbrellas were dumped into India, thus doing great damage to immature Indian industries.

30. Indo-Japanese Agreement, 1937: All the above mentioned points of criticism were taken into consideration when the old treaty was over and a new one was to be drawn up in 1936. The need for inclusion of *fents*, artificial silk goods and made-up cotton clothes in the quota was urgently stressed by the non-official advisers. But although the negotiations were long and protracted, the new Protocol retained the main features of the old one.

The basic quota was reduced by 42 million yards of piecegoods from 325 to 283 million yards against a purchase of one million bales of cotton from India. The reduction was due to the separation of Burma from India, but was not nearly enough, as Burma's share had been fixed at 70 million yards at the time of the old Agreement. The Government either could not or did not use their advantageous position in restricting Japan's demands due to their anxiety for the Indian cotton grower. They also failed in including the miscellaneous exports of Japan in the quota, nor were the various loopholes for additional exports of cloth closed except that the quantity of *fents* exported to India were fixed at about 10 million yards, i.e., $2\frac{1}{2}$ per cent. of the piecegoods quota.

Under the new Agreement, Japan went on exporting all kinds of textile and non-textile goods in increasing quantities while her off-take of Indian cotton was more or less the minimum required to satisfy the quota prescribed. The Agreement was to be reviewed and revived in 1940, but the negotiations broke down and before anything could be finally settled the war intervened.

31. The Indo-Burma Trade Agreement, 1941: Since the separation of Burma from India in 1937, till 1941, when an

Agreement was finally signed between India and Burma, the trade between the two countries was governed by a Trade Regulation Order-in-Council which maintained the *status quo*. The new Agreement gave a 10 per cent. margin of preference against Empire goods and 15 per cent. against non-Empire goods. The Burmese farmer and miner gained considerably as rice, gums, timber and ores were admitted into India duty-free. The Indian manufacturer of sugar and cotton also benefited from privileges obtained in the Burmese market. It would be well to remember, however, that Indian imports from Burma far exceed in value her total exports to that country; hence Burma derives a greater total advantage than India.

31. Post-War Fiscal Policy : A great many International Conferences have been held in 1944-45 in the U.S.A. to lay down broad outlines of economic policy to be followed after the war is over. One such Conference was held at Rye in U.S.A. in 1945. It was witnessed there that current ideas in many countries, particularly in the U.S.A., were tending towards free trade. Such a fiscal policy might easily suit industrially advanced countries but it would deal a death blow to the many 'war-babies' as well as order but insufficiently developed industries in India. Sir Chuni Lal Mehta, the Indian delegate to this Conference, made efforts to bring home to the members that India would need some kind of protection as only thus could the standard of living of the masses improve. The Government of India was also committed to this policy and had given such assurances to the producer in India time and oft.

Pakistan would need immense quantities of capital goods in the post-war era for which she would have to pay either by exports of goods or by clearing off her sterling balances or by a combination of both. She should, therefore, try to export partly or wholly manufactured goods to her new markets in the Middle East and Burma in addition to raw materials to our old markets in the continent of Europe.

Trade controls which originated in war times could not be given up the moment the war is over and must persist for a few years more even though the general trend is towards their abolition as was established at Rye. Pakistan must carry on with her protective tariff with a few changes here and there as advised by experts in the Tariff Board. The selective protectionist policy has been tried in the past and has proved fruitful. The economic interests of the country require the liberalisation of this policy on a generous scale. It is fortunate that the extreme dependence of Government revenues on import duties is fast disappearing and

the income tax and excise duties are coming to occupy a prominent position in the budgetary position. Thus the arguments in favour of our revenue tariff as distinct from a protective one have now no legs to stand upon.

Bilateral trade agreements with important foreign countries are frequently recommended for India.¹ The examples of United Kingdom, France, Germany and Japan are cited. It is pleaded that when these countries have successfully stimulated their trade through the help of quotas, clearing arrangements and bilateral treaties, India could also do the same by an extension of reciprocity in her trade relations.

It is forgotten that India was not a free agent so far as her fiscal policy was concerned. To make a bilateral pact fiscal freedom is a prerequisite. Another essential condition is an unfavourable balance of trade with the country with whom such an agreement is desired. Countries like Japan and Germany are differently situated as compared with India. They buy most of their raw materials abroad. They are bound to buy in the cheapest markets and India can take her chance against her competitors in the world raw material markets. India's experience of the Ottawa and Indo-Japanese Agreements has not been exactly happy. She was compelled to yield even where her essential interests were concerned. Hence India's interest lies more in consuming her own raw materials in her own factories and selling her surplus where and how she can. She has cleared away her Home Charges too, so there is not the same urgent need to secure a heavy favourable balance of trade.

Now Pakistan and India have attained Dominion Status with sufficient amount of fiscal autonomy in the true sense of the word and are free to mould their own fiscal policy. We will be advantageously placed to enter into bilateral trade agreements. India should join the multilateral convention covering the principal aspects of commercial policy as sponsored by the United Nations if it materialises and if we can protect our growing industries from foreign competition. In any case there seems to be a strong likelihood of the economic relationship between the sterling and dollar groups holding on in the future.

It would be in Pakistan's interest to align her policy with this economic group, a group whose ideals at least are equality of treatment to all nations.

1 Jathar and Beri, op. cit. p. 633.

Pakistan should, however, carefully nurse her new markets in the Middle East as well as develop her own industries on a large scale under the shelter of protection promised by the Government. Thus when a reorientation of the fiscal policies of different countries comes about, we shall have an assured position and shall be able to keep on working on the present lines of our industrial development—exporting raw materials as well as manufactured goods and developing a balanced economy.

CHAPTER XXII

CURRENCY AND EXCHANGE

1835—1925

1. Introduction : To understand properly the present currency position in Indo-Pakistan it is necessary to trace, briefly, the Indian currency history for the last hundred years. During this time India has had experience of silver standard, a gold exchange standard, a gold bullion standard and a sterling exchange standard. Throughout the period, there has been an under-current of demand on the part of Indian opinion, sometimes also supported by high Government officials, for a full-fledged gold standard with gold coins circulating as currency. This ideal still remains to be realized and its possibilities now are intimately bound up with the international currency developments after the war that has just ended. From the past experience, however, guidance may be derived for future action.

2. Establishment of Silver Standard, (1835): The silver mono-metallism was established in India by the Currency Act of 1835. Before that date, the silver rupee and gold muhr were current in Muslim India since Akbar's time and in the South gold was the principal currency. In addition, there was a bewildering variety of coins, current in different parts of the country, when the East India Company came upon the scene.¹ And it was their desire for a uniform currency system, in the interests of trade, that culminated in the passing of the Act of 1835.

Under the silver standard, any one could take silver to the mint and could get it coined into rupees weighing 180 (11/12 fine) free of charge. Gold, however, did not entirely disappear from the field. The Act of 1835 authorized the coinage of gold coins if required by the public; and a notification of 1841 authorized public treasuries freely to receive gold coins (gold muhrs) at their face value i.e., at the rate of 15: 1, in payment of public dues. This notification was withdrawn in 1852, when large quantities of gold coins began to accumulate in the public treasuries, due to the fall in the price of gold. Again, between 1864 and 1878, the

1. According to an estimate, 994 different gold and silver coins of varying weights and fineness were current.

Government authorized receipt of gold coins into public treasuries at lower rates. With these exceptions, the authorities kept to the policy of silver mono-metallism, in spite of agitations¹ now and again in favour of a gold currency, up to the year 1893.

3. Breakdown of the Silver Standard : Difficulties began to arise in the working of the silver standard after 1874, due to the fall² in the gold price of silver, which began about that time. The rupee being a full-bodied silver coin freely minted, its value (rate of exchange) in terms of gold (or sterling) fell with the fall of the gold value of silver, as is shown in the following table :—

Period				Price of silver per oz.	Rate of exchange per rupee.
				d.	d.
Average, 5 years ending	1880	...	...	53	20.5
" "	1885	...	...	51	19.6
" "	1890	...	...	44	17.1
Average for the years ending					
March 31	1891	...	...	47	18.0
" "	1892	...	...	45	16.7
" "	1893	...	...	39	14.9

The fall in the gold price of silver was due, partly to the greater supply of, and contraction in, the demand for silver, and partly to the smaller production of gold on the one hand and the greater demand for this metal on account of substitution of gold currency in place of silver by a large number of European countries,³ on the other.

The consequences of the fall in the value of silver were serious. It paid people to purchase silver cheap and get it coined into rupees from the mints. This led to a general rise in prices, due to the increase in the amount of money in circulation. The

1. 1859—Bengal Chamber of Commerce made representation to the Governor-General for gold currency; 1864—Commercial communities of Bombay, Madras and Calcutta sent memorials to the same effect, and Charles Trevelyan recommended putting of gold on the same status as silver; 1866—Mansfield Commission, appointed as a result of representations for gold currency by Calcutta Chamber of Commerce. They recommended gold currency; but their report was shelved by the Government; 1872—Sir Richard Temple, in a note recommended gold standard. In 1874 the Government of India decided not to accept the proposal.

2. There was a rise in the price of silver between 1890 and 1892 on account of the U.S.A. policy (under pressure of silver producers) of purchasing 4½ million ozs. of silver every month, under Sherman Act (1890) against the issue of treasury notes. These purchases became ineffective later, due to agitation against the Act and the danger of the accumulated silver falling on the market later on.

3. Germany and the Latin Union (France, Switzerland, Belgium and Italy).

import trade also suffered, because more silver rupees were required to pay for imports of a given value in sterling. The trade in general, including exports, was also unfavourably affected due to the element of uncertainty regarding the rate of exchange. Moreover, the European officials in India demanded allowances to make up for the loss they suffered in meeting their sterling obligations in England. But the greatest problem that arose, was in connection with the payment of what are called 'Home Charges'. There are, as we have seen, payments made by India in the United Kingdom to meet salaries and pensions of British officers in Indian service there, her obligations in connection with interest on sterling debt, prices of stores purchased, and shipping services rendered to India. The fluctuating exchange introduced considerable amount of uncertainty in budgeting for the 'Home Charges', besides increasing their burden in terms of rupees. As the Finance Member of the time pointed out, a fall of one penny in exchange would have meant a deficit of three crores of rupees in the budget¹ while a rise of one penny would have led to a surplus.

Something had to be done. The Government tried a number of alternatives, but ultimately the matter was referred to a committee under the chairmanship of Lord Herschell. The Committee reported in 1893 and recommended the closing of the mints to the free coinage of both gold and silver. This was done by the Coinage Act of 1893, and the silver standard was ended.

4. Towards a Gold Standard: But what system was to take the place of the silver standard? The Herschell Committee had proposed that "the closing of the mints against the free coinage of silver should be accompanied by an enunciation that, though closed to the public, they will be used by the Government for the coinage of rupees in exchange for gold, at a ratio to be then fixed, say at 1s. 4d. per rupee; and that at the Government treasuries gold will be received in satisfaction of public dues at the same rates."² Along with Act VIII of 1893, therefore, three notifications were issued (Nos. 2662-4 of 26th June 1893), by which arrangements were made; (i) for the receipt of sovereigns and half-sovereigns in payment of sums due to Government at the rate of Rs. 15 for a sovereign; (ii) for the receipt of gold at 16d. per rupee; (iii) for the issue of currency notes to the Comptroller-General in exchange either for British gold at the above rates, or for gold bullion at a corresponding rate.³ Thus the rupee having lost its "natural" value, after

1. Herschell Committee Report, par a. 5.

2. Ibid.

3. Fowler Committee Report, para. 13.

suspension of its free coinage, was given an artificial value of 1s. 4d. per £ sterling.

As there was redundancy of rupees, it was sometime before its value came up to 1s. 4d. The Indian exchange fell to 1s. 31/32d. on January 23, 1895, after which date it rose slowly and steadily for a period of 36 months, till in January 1898, it reached the legal ratio of 1s. 4d. After this it moved steadily around that point.

In 1898 an Act was passed which authorized the issue of currency notes against gold received in England by the Secretary of State at the rate of one rupee per 7.53344 grains of fine gold, plus the cost of shipping gold to India. This gold was to be kept in the Bank of England earmarked as a part of the Indian Paper Currency Reserve. The Secretary of State under a notification (January 21, 1898) announced his readiness to sell telegraphic transfers on Calcutta, Bombay and Madras, at a rate not exceeding 1s. 45/32d. per rupee.

"The object of the currency reforms of 1893-98 was (i) to prevent a further fall in the gold value of the rupee, (ii) familiarize the people of India with the use of gold without forcing it upon them, and (iii) to stabilize the rupee sterling ratio at 1s. 4d. per rupee. Obviously the measures were both experimental and transitional. The ultimate aim was the introduction of a gold standard with gold coins and rupees in concurrent circulation at a fixed ratio, the rupee being reduced to the status of full legal tender token money."¹

When the actual rate of exchange, therefore, reached the point fixed by law in January 1898, the Government of India asked the Secretary of State to terminate the period of transition, and submitted a scheme for the introduction of a gold standard. It was to examine this scheme that a committee was appointed under Sir Henry Fowler in April, 1898.

Fowler Committee. The Committee considered some other proposals besides the one submitted by the Government of India. One of these aimed at reopening of the mints to the free coinage of silver. This was rejected on the ground that it would expose the Indian currency system to the same risks and uncertainties as were experienced during 1878-93. Then there was a scheme by Leslie Probyn and another by Mr. Lindsay. The latter scheme has an historical significance, because it was on the lines proposed in this scheme that the Indian currency system developed later.

1. H. L. Dey in *Economic Problems of Modern India*, Vol. II, p. 219.

Both these schemes aimed at economising gold. L. Probyn suggested a form of gold bullion standard, and Lindsay, what was later known as, the gold exchange standard. The Committee rejected both the schemes on the ground that there was no precedent in their favour and that orthodox opinion was against them.

In the place of these schemes, the Committee favoured the ultimate establishment in India of a gold standard with gold currency; and to this end they proposed (i) that the British sovereigns and half-sovereigns should be made legal tender and current coins in India; (ii) that the Indian mints should be thrown open to the unrestricted coinage of gold into sovereigns as in the three Australian branches of the Royal mint; (iii) that the rate of exchange should be permanently fixed at 1s. 4d.; (iv) that rupees, should be of restricted coinage and unlimited legal tender and should not be legally converted into gold, *i.e.*, for internal purposes (v) that gold from the reserves should be freely available in exchange for rupees whenever the rate of exchange tended to fall below the gold-export point; (vi) that coining of fresh rupees should not be undertaken till such a time as gold in actual circulation tended to rise above reasonable proportions; and finally (vii) that the profits of rupee coinage should be kept aside as a special reserve called the Gold Standard Reserve.

5. The Evolution of the Gold Exchange Standard: The Government accepted all these proposals and started taking measures to implement them. Thus:

(1) The Indian Act No. XXII of 1899 was passed making the sovereign and half-sovereign legal tender throughout India at Rs. 15 to the £.

(ii) Active steps were taken as regards the opening of a mint for the coinage of gold in India, but the scheme was dropped in 1902 mainly because the British Treasury had raised technical difficulties and in the meantime an attempt to introduce gold coins into active circulation had failed.

(iii) The Gold Standard Reserve came into existence in 1900 out of the profits of rupee coinage when it was resumed that year for the first time since 1893.

The Two Reserves. We have already seen that an Act of 1898 authorized the issue of notes in India against gold deposited in London earmarked at the Bank of England as part of the Paper Currency Reserve. This Act was at first intended to be temporary. "Its effect was to facilitate Government remittances to London, to add to the gold resources of India, and to give some

elasticity to the currency by allowing the issue of rupees or notes in India against gold tendered in London. But this additional issue of currency against gold tendered in London added to the drain on rupee reserves of the Government of India."¹

In view of the drain the Government of India, implementing the recommendations of the Fowler Committee, made an active effort to induce people to use sovereigns as currency. The currency offices and post offices were instructed to pass on sovereigns to the public as far as possible. The results, however, were unsatisfactory. The sovereigns and currency notes went to a discount as against the rupees. "Special demands for rupee, owing to famine conditions and the inadequacy of the supplies of the favourite circulating medium, combined to aggravate the general monetary stringency."²

It was thus that the Government had to resume coinage of rupees in 1900 on a considerable scale. This led to a recourse to the London silver market. The Act of 1898 was extended for a period of two years, "with the addition of a provision authorizing the use of the gold in the paper currency chest in London for the purchase of silver for coinage of rupees and the treatment of the silver so purchased as part of the Reserve against notes in circulation during the interval between purchase and mintage"³. This arrangement was made permanent by an Act of 1902. In 1905, 5,000,000 sovereigns were shipped to London from the accumulated stock of gold in the Paper Currency Reserve in India, to be kept in the Reserve in London for purchase of silver for the coinage of rupees when required. Thus arose the London branch of the Paper Currency Reserve.

As regards the gold reserve formed out of the profits of rupees-coinage, the idea of the Government of India seemed to have been to keep the gold locked up in a special chest in India. But the Secretary of State decided that it should be remitted to London and invested in sterling securities. It was held that it would be more useful in London where it would have to be applied if an emergency arose. The profits of coinage were thus remitted to London for some years after 1901. This came to be called the Gold Standard Reserve.

Thus were created Gold Standard Reserve Paper Currency Reserve (London branch) in London.

1. Chamberlain Commission Report, para. 24.

2. Ibid.

3. Ibid.

4. Ibid.

In 1906 an Indian branch of the Gold Standard Reserve was created which was to be kept in the form of rupee coins. This was necessitated for meeting the demand for rupees at a short notice and was to be used to prevent the rate of exchange going to a premium over 1s. 4d. This was created by holding the profits in the coinage of rupees in the Reserve in the form of rupees in India, instead of converting them into sterling held in London. It was then that the name Gold Standard Reserve was applied to these two branches of the Reserve for the first time—one in India in the form of silver rupees and the other in London in the form of sterling securities.

Upper Specie Point Fixed: In the meantime another development had taken place. The practice of shipping gold from India to London (from the Paper Currency Reserve in India to the Reserves in London) was found to be needlessly expensive. "The gold, it was seen, reached India in the first place* at the cost of individuals, and then had to be shipped back to London by and at the cost of Government, after the public had handed it on to the Government, in exchange for rupees." This expense could be saved by the extension of the practice of receiving gold in London in exchange for rupees in India. Since 1898 the Secretary of State used to draw the Home Charges by selling Council Drafts for Gold in London against the issue of notes in India. In 1904 the Secretary of State announced his willingness to sell Council Drafts (called Council Bills) without limit at 1s. 4½d.—the gold export point from London. When the treasury balances were not sufficient to meet these Bills (when demand for them was very high to pay for a large favourable balance of India's trade) they were met by the withdrawal of rupees from the Paper Currency Reserve in India against a corresponding deposit of gold in the currency chest in London. Meanwhile silver was purchased in London out of these proceeds and sent to India to be coined into rupees.

Some gold, however, still continued to come to India from Egypt and Australia and had to be shipped to London time and again. To avoid this expense also in 1905 it was decided to offer telegraphic transfers against sovereigns in transit from Egypt or Australia to India at such rates as to make it worth-while for the owners of such sovereigns to divert them from India to London.

Thus it was that the upper limit of the fluctuations of the rupee-sterling exchange got fixed at 1s. 4½d. The exchange could not rise above this point as long as the Secretary of State was willing to sell Council Bills at that price. But the exchange could

fall below the gold export point from India. But, normally, India's balance of trade being favourable such a contingency was regarded as extremely remote. In fact in June 1907 a Committee appointed on Indian Railway Finance recommended that a part of the profits from coinage should be diverted to capital expenditure on Railways, and the Secretary of State agreed with this view and in fact proceeded to use over a million pounds for this purpose saying that "the danger of a fall in exchange is illusory, having regard to the present conditions of trade, the amount of security in the Gold Standard Reserve, and of gold in the Currency Reserve."¹

Lower Specie Point Fixed: This danger, however, was not illusory as was proved before the same year was out. "The partial failure of the summer monsoon in 1907, and the general monetary stringency all over the world which accompanied the American financial crisis in the autumn of 1907, caused the Indian exchange to become very weak in November of that year. The stock of sovereigns in the Paper Currency Reserve in India began to fall, their place being taken by rupees." The Government refused to sell telegraphic transfer on London and also refused to give gold except in small quantities. The exchange fell to as low as 1s. 3-23/32d. on 23rd November. The exchange did not improve until the Indian Government agreed to sell telegraphic transfers and later sterling bills on London the price of which was ultimately fixed at 1s. 3.29/32 d. the gold export point from India. In all, over £8 million were withdrawn from the Gold Standard Reserve to meet these bills (later called Reverse Councils).

The net result of all these measures—forced on the Government by circumstances,—was the emergence of a system usually described as the Gold Exchange Standard and not the system originally aimed at and recommended by the Fowler Committee i.e., gold standard with currency.

9. Main Features: The main features of the new system were:—

(1) The internal currency consisted of the rupee which though a token coin was also the standard of value, the notes (issued by the Government) and small subsidiary coins which were legal tender. There were also in circulation sovereigns in a limited quantity.

(2) The rupee was convertible into gold only for external purposes at the rate of 16d. to a rupee.

1. Chamberlain Report, para. 36.

(3) The sterling (gold) value of the rupee was regulated between 1s. 4½d. (the upper specie point) and 1s. 3'29/32d. (the lower specie point) through sale of Council Bills and Reverse Council Bills respectively.

(4) To work this system two reserves were maintained, one in India mainly in rupees and the other in London in sterling. The Indian reserve was constituted by (i) the Indian portion of the Paper Currency Reserve; (ii) the silver branch of the Gold Standard Reserve; and (iii) the treasury balances of the Government. The London reserve consisted of (i) the London branch of the Paper Currency; (ii) the Gold Standard Reserve, and (iii) the balances of the Secretary of State. These reserves were created for separate purposes, but in practice they were available for the support of exchange in the case of necessity.

This system worked quite smoothly until it broke down during the Great War (1914-18). In the meantime it had received the approval of the Chamberlain Commission.

7. Chamberlain Commission: The Chamberlain Commission was appointed in April 1913, under the chairmanship of Austin Chamberlain to examine the mechanism of Indian currency and exchange and to suggest measures for its improvement. The Commission in their report (issued February 1914), approved of the various measures taken by the Government to stabilize exchange. They were of the definite opinion that the gold exchange standard was not only workable but was eminently suited for India, because of the absence in this country of a well-developed banking system, and on account of its cheapness. Due to the hoarding habit of the people they considered a gold standard with gold currency, as proposed by the Fowler Committee, as absolutely undesirable. They had no objection in principle to minting in India of sovereigns and half-sovereigns. Indian people genuinely demanded them and the Government were ready to incur the expense. Among the minor alterations proposed in the system by the Commission were the prompt selling of Reverse Council Bills and the abolition of the silver branch of the Gold Standard Reserve. They also emphasized the need for maintaining adequate reserve of gold and sterling securities in London for the purpose of converting internal currency into external or international currency. Before the recommendations of the Commission could be properly considered the war broke out and threw the currency system into the melting-pot.

8. Breakdown of the Gold Exchange Standard: The war began in August 1914. The first effect of the war was a general loss of confidence on the part of the people with the result that there was a rush for encashment of notes and withdrawals of deposits from the banks. The exchange showed signs of weakness on account of disturbance of trade. But soon the Government was able to restore confidence by providing adequate facilities for encashment of notes and for the withdrawal of deposits from the savings banks. To support exchange, Reverse Councils to the value of about £9,000,000 were sold. The uncertainty of the delivery of bills in London was eliminated by an arrangement by which payments could be made in London sixteen days after the departure of the weekly mail.

The real trouble, however, began in 1916 which ultimately led to the breakdown of the Gold Exchange Standard. For the success of the system it was necessary that the Government should be able to maintain the stability of exchange. This the Government failed to do, because an excessive demand for rupees arose at a time when the price of silver was rising to an unprecedented level.

The excessive demand for rupees was due to :—(i) excess of exports over imports and hence an increase in the export surplus in favour of India. The average excess of exports during the three years ending 1918-19 was £59.6 millions, as against the average of £53.4 millions for the three pre-war years. The increase in the favourable balance of trade was due to (a) falling off in imports due to shipping difficulties and other circumstances of war, and (b) stimulation of exports on account of greater demand for Indian materials for war purposes on the part of Great Britain and her Allies,

(ii) Demand for currency was further aggravated because of the need for making payments on account of troops engaged and supplies in the Eastern theatres of war (Mesopotamia, Persia, East Africa) for which India was the base of operations. During the period of the war more than £24,000,000 were spent by the Government on this account.

(iii) Further there was need for financing purchases in India on behalf of Dominions, Colonies and America.

Before the war, part of the normal favourable balance of trade was liquidated by the imports of silver and gold. These means were now not available due to restrictions on the

movements of precious metals.¹ This caused the demand on the Government to supply additional currency. To meet this growing demand the Government had to purchase silver at rising prices.

The rise in the price of silver was very marked. In 1915 it was a little over 27d. per oz., by the end of 1916 it had reached 43d., (the point at which the bullion value of the rupee was equal to its face value at 1s. 4d. rate of exchange). In September 1917 the price of silver reached 55d. After remaining steady at this point due to control imposed by U.S.A. the price jumped to 78d. in December 1919, the control having been removed in May 1919. It reached its highest level in February 1920, when it stood at 89½d. per oz.

The rise in the price of silver was caused by (i) shortage of supply specially from Mexico where production fell due to internal troubles, (ii) heavy demand for silver chiefly for coinage purposes, (iii) depreciation of the sterling in terms of dollar due to the unpegging of sterling-dollar exchange in March 1919. America being the largest supplier of silver, payments have ultimately to be made in dollars. This raises the sterling price of silver, when the sterling depreciates, even though the dollar price may not have risen.

The consequences of this rise in the price of silver on Indian exchange were serious. From August 1917, the rupee ceased to be a token coin. It paid people to melt it and sell it as silver. It was, therefore, not possible for the Government to purchase silver at the new rising price and supply rupees at 1s. 4d. without incurring enormous losses. And this at a time when there was excessive demand for rupees due to reasons already noted. Moreover, the newly issued rupee coins were disappearing from circulation due to their being melted by the people.

On the 28th of August 1917, the Secretary of State raised the rate of Telegraphic Transfers from 1s.—4½d. to 1s. 5d. and soon it was announced that the price of the rupees would be changed according to the changes in the price of silver. This was virtually the reintroduction of the silver standard.² The rate of Telegraphic Transfers was thus raised from time to time until it stood at 2s. 4d. on the 12th of December 1919.

1. During the five years ending 1913-14 India imported treasure to the value of £120,000,000. For the years ending 1916-19 the figure was only about £36,000,000.

2. Vakil and Muranjan : *Currency and Prices in India*, p. 112.

Some other measures were also taken by the Government to meet this situation :—

(i) *Control of Exchange.* The Secretary of State limited the sale of Council Drafts from 20th December, 1916, to an amount varying between Rs 20 to 120 lakhs. This was to reduce the necessity of paying rupees.

Certain banks were put on the *Approved List* and were required to finance the export of war requirements. They were protected against the rise in exchange by giving them certain facilities. The idea was to confine exports only to war essentials.

(ii) *Purchase of silver.* Import of silver on private account was prohibited (3rd September, 1917) and the Government made large purchases of this metal from U.S.A. for coinage purposes.

(iii) *Certain measures were taken to economise silver.* From 29th June, 1917, the use of gold and silver for non-monetary purposes was declared illegal. From 3rd September, 1917, export of silver coin and bullion was prohibited. In December 1917 and January 1918, respectively, 2½-rupee and one-rupee notes were issued. Nickel pieces of small denominations were coined.

(iv) *The Government purchased all the gold* that was imported and deposited it in the Paper Currency Reserves for notes to be issued against it. Further, gold coins were pushed into circulation.

(v) *Among the financial measures taken to meet the currency difficulties* were additional taxation, curtailment of capital expenditure and extensive borrowing in India.

In spite of all these measures—which were quite valuable in themselves—the Government was unable to maintain the exchange at an artificial level and thus the Gold Exchange Standard broke down.

9. The Smith Committee. After the war was over a currency committee was appointed in May 1919, under the chairmanship of Babington Smith. The Committee was to “examine the effect of the war on the Indian exchange and currency system and practice . . . to consider whether, in the light of this experience and of possible future variations in the price of silver, modifications of the system or practice may be required; to make recommendations as to . . . the policy that should be pursued with a view to meeting the requirements of trade, to maintaining a satisfactory monetary circulation and to ensuring a stable gold

exchange standard." The Committee was thus precluded from suggesting another system but the Gold Exchange Standard, which was to be modified in order that its stability may be ensured. Taking into account the recent variations in the price of silver and the future expectations in this respect, the Committee recommended 2s. (gold) as a safe ratio which would keep the rupee a token coin. Other advantages claimed for the high ratio were (i) that it would cheapen imported materials and machinery. Exports, however, would not be discouraged because of the great demand for Indian produce in the world market owing to shortage of materials and foodstuffs; (ii) Government finances would gain because it would mean a saving of about 12 crores in the 'Home Charges.'

In addition, the Committee recommended opening of a mint in Bombay for the coinage of sovereigns and half-sovereigns for the public; removal of restrictions on the import and export of gold and import of silver on private account. They further recommended that the Gold Standard Reserve should contain a considerable proportion of gold and that 50 per cent. of the Gold Reserve should be kept in India. Mr. D. M. Dalal, the only Indian member of the Committee, in his Minute of Dissent recommended ls. 4d. as the ratio and favoured the issue of two-rupee coins of smaller silver content during the period of high price of silver.

The Government accepted the recommendations of the majority. All war-time restrictions were removed; treasuries and currency offices were instructed to accept sovereigns and half-sovereigns at the rate of Rs. 10 and Rs. 5 respectively,¹ but not to issue them. The gold mint was not opened.

10. The 2s. Ratio. The new ratio was adopted from the 2nd February 1920 when the Secretary of State fixed the price of one rupee at 11'30016 grains of fine gold. The 2s. (gold) ratio did not work long. It fixed the price of gold at Rs. 15-14-0 per tola when actually the market price of gold at the time was Rs. 22-8-0. Hence it was impossible for the Government to supply, for long, sterling at a rate corresponding to 2s. (gold) per rupee. A great demand for sterling had arisen because of the balance of trade turning against India after 1919. "Imports had increased owing partly to the increased demand for piecegoods, the stock of which had run low at the end of the war, and partly to the stimulating effect of the rise in exchange on demand. Exports on the other hand had declined owing to a

1. As the market price of sovereigns continued about Rs. 10, they never functioned as currency at the new ratio.

combination of adverse circumstances. In the first place Japan, one of the chief buyers of Indian cotton, was obliged to reduce her purchases because of a financial crisis there. Secondly, the demand for jute, hides and tea fell off partly because of the large stocks accumulated in England and elsewhere and partly because of the industrial uncertainty prevalent in the markets for these goods. Thirdly, India lost some of her best customers. Owing to various economic and political troubles the countries of Central Europe were not then in a position to pay for what they wished to purchase."¹ The result was that the balance of trade that was about Rs. 11 crores in favour of India in 1919 turned to an unfavourable balance to about the same amount in the following year. Moreover there was speculation in exchange. People began to convert rupees into sterling with the hope of making profits by reconversion of sterling into rupees when the exchange fell later.² The European community also took advantage by sending their remittances at the new favourable rate and so did the importers of goods by making payments without delay for their imports. All these factors created demand for sterling. The Government had to pay more than 2s. in sterling because of the depreciation of sterling in terms of gold. Thus while the Government was selling sterling at about 3s. per rupee the actual market rate was much less. Sterling was appreciating in terms of rupee not only on account of the great demand for it in the exchange market but also because prices were falling faster in England than in India. The Government tried to maintain exchange at 2s. gold at first and at 2s. sterling later but all these attempts ultimately failed. On 28th September 1920, the Government refused to sell sterling drafts on London. But by that time Reverse Councils to the tune of £55·2 millions had been sold. These had been met in London by the sale of sterling securities and treasury bills belonging to the Paper Currency Reserve. These securities had been bought at Rs. 15 per £ and had to be sold at Rs. 7 to Rs. 10 per £ and the Government suffered a total loss of about Rs. 35 crores.

The result was a continuous fall in the rate of exchange which sank to 11·9/32d. gold or 1s. 3·13/32d. sterling by July 1921, with serious consequences on Indian foreign trade.¹ The Government now allowed the exchange to adjust to world conditions in order that the Indian prices may not unduly be dis-

1. Chabiani : Indian Currency and Exchange, p. 92.

2. The collapse of exchange within twelve months from the level of 2s. 4d. prevailing in April 1920 to below 1s. 3d. was critical for importers, many of whom had ordered goods when exchange was high without fixing their exchange and who were unable or unwilling to settle at the low rate prevailing when the

turbed. By January, 1923, the exchange began to rise again, due to revival of favourable balance of trade, till it reached the level of 1s. 4d. gold or 1s. 6d. sterling in October 1924. At that time the Government was pressed to stabilise it at that rate. But the Government refused to do so. By limiting the supply of currency the Government raised the ratio to 1s. 6d. gold by April 1925. A few months after this a Royal Commission was appointed to review the whole situation.

9. Government Policy Criticised. The policy of the Government in fixing a high exchange and then maintaining it at a considerable loss to India has been severely criticised. It is argued that the price of silver was admittedly uncertain and so was the sterling-dollar rate, hence the Government should have waited for some time before taking a definite step in fixing the exchange. During this period of uncertainty the exchange should have been left free to find its own level. In fact it should not not have been so difficult to foresee that exports were likely to fall off and imports to rise rapidly in the near future. "At the moment when it was sought suddenly and violently to raise the rate of exchange by the introduction of the new ratio of shillings to gold, the export trade was weak and the import trade in obedience to the delivery of long deferred orders was strong."¹ Moreover, it was known that India had been starved of essential imports during the war and imports were bound to increase in the near future. "It was also known that European Companies in India had accumulated vast profits in the war period which were waiting to be remitted abroad with the return of normality²."

Thus a little vision on the part of the authorities would have convinced them that forces were at work which would wreck their scheme of 2s. ratio. Had the exchange been left free to find its own level it would have settled at a lower point and thus would have served as a corrective to the impending unfavourable balance of trade. Enforcement of the high exchange, on the other hand, exaggerated the effect of these forces. The Smith Committee themselves had enunciated the principle that "a rising exchange stimulates imports and impedes exports, the effect of a falling exchange is the reverse." This very principle operated to wreck their recommendation.

goods arrived. At the close of the year the Indian ports remained congested with imported piecegoods, motor cars and other articles of which delivery had not been taken. In further contrast to the preceding year there has been an almost continuous return of rupees from circulation, a symptom of general stagnation of trade." (Report of the Controller of Currency for 1920-21.)

1. Indian Year Book (1943-44), p. 750.

2. H. L. Dey: op. cit. p. 228.

The Government is criticised not merely for introducing the 2s. ratio but also for persisting to maintain it even after it had become clear that it was a hopeless task to do so. "By the end of June 1920 it was fairly clear that the task which the Government had taken upon themselves was an impossible one.³" But the Government still persisted in their attempt to maintain the high ratio. Mr. C. H. Kisch, Financial Secretary, India Office, stated that "Government felt in incumbent upon itself to take such indirect measure as might tend towards checking the fall in exchange and as might create conditions favourable to its gradual recovery." Thus the attempt to push up exchange by indirect measures continued even after the sale of Reverse Councils had been suspended. These indirect measures consisted, among others, of contraction of currency.

Why was the Government so attached to the high exchange? "What they (the India Office) wanted was to push up exchange by deflationary measures so that it could be helpful to imports."² Thus it was the British interests that were guiding the policy of the Government. The idea was to encourage British imports into India by raising the value of the rupee in terms of English money. "High exchange," said Mr. Ainscough, "places the British manufacturer in a more favourable condition *vis-a-vis* his competitor in India. On the whole, therefore, his material interests would appear to be best served by the fixation of exchange at as high a rate as may be possible under the circumstances."³ No wonder that the Smith Committee's report was so favourably received by the British Press.

The Government policy imposed a threefold loss on India :
 (i) For her supplies to the Allies during the first war (as in II) India was paid not in goods but in sterling credits. This accumulated sterling was squandered by the Government to the value of about £24 millions in their attempts to maintain the 2s. ratio.
 (ii) In so far as the high exchange stimulated imports it adversely affected Indian industries.
 (iii) The sudden decision of the Government to let exchange fall to its natural level ruined many Indian importers who had ordered foreign goods at the high exchange and were now required to pay more than double in terms of rupees than what they had expected to pay. The Government policy might have served the material interests of England but not those of India.

1. Jathar and Beri, op. cit. p. 328.

2. G.D. Birla: Indian Currency in Retrospect (Kitabistan), p. 13.

3. Mr. Ainscough's Report on British Trade in India etc. quoted by Brij Narain: Indian Economic Problems, Part I, p. 213.

CHAPTER XXIII

CURRENCY AND EXCHANGE (CONTD.)

1926-1939

1. Defects of the Gold Exchange Standard: On 25th August, 1925, a "Royal Commission" was appointed under the chairmanship of Lieutenant-Commander Hilton Young, "to examine and report on the Indian currency system and practice to consider whether any modifications are desirable in the interests of India, and to make recommendations."

The Commission found the following defects in the Gold Exchange Standard as it operated in India :—

(1) "The system is far from simple, and the basis of the stability of the rupee is not readily intelligible to the uninstructed public. The currency consists of two tokens (rupee coin and rupee note) in circulation, with the unnecessary excrescence of a third full value coin (sovereign) which does not circulate at all. One form of token currency (into which there is an unlimited obligation to convert the other) is highly expensive, and is liable to vanish if the price of silver rises above a certain level.

"(2) There is a cumbrous duplication of reserves, with an antiquated, and dangerous, division of responsibility for the control of credit and currency policy.

"(3) The system does not secure the automatic expansion and contraction of currency. Such movements are too wholly dependent on the will of the currency authority.

"(4) The system is inelastic. The utility of the provision¹ for elasticity made on the recommendations of the Babington Smith Committee is affected by the methods of financing Indian trade."²

2. The Gold Bullion Standard: The Commission's task was threefold ; (i) to propose the currency system best fitted for India ; (ii) to suggest the ratio at which the rupee should be stabilized with the sterling ; (iii) to recommend measures for the establishment of a Central Bank. The Commission proposed the Gold Bullion Standard as the currency system for India, 1s. 6d.

1. See below next chapter. See p. 456.

2. Report ; Hilton Young Commission, 1926, para 21.

as the exchange ratio, and a Central Bank—the Reserve Bank of India—to take charge of the Central Banking functions. The scheme of the Reserve Bank will demand our attention in a subsequent chapter. The other two proposals will be discussed here.

Before finally recommending the Gold Bullion Standard the Commission examined the *pros* and *cons* of other possible alternatives : (i) the adoption of gold exchange standard, and (ii) the adoption of a gold standard proper with gold currency. All these alternatives were rejected.¹ They recommended a “gold standard without gold currency” or the “Gold Bullion Standard” as it was called. Thus wrote the Commission :

“It is possible to have a true gold standard under which the currency is based on gold both in reality and in a manner that is conspicuously visible, without putting gold into circulation..... The essence of the proposal.....is that the ordinary medium of circulation in India should remain as at present the currency note and the silver rupee, and that the stability of the currency in terms of gold should be secured by making the currency directly convertible into gold for all purposes, but that gold should not circulate as money. It *must* not circulate at first, and it *need* not circulate ever.” (Para 54).

1: The grounds on which these systems were rejected are given below.

(a) **Sterling Exchange Standard**: Even if perfected by amalgamation of Gold Standard and Paper Currency Reserves and by imposing statutory obligation on the currency authority to sell rupees and sterling when required without limit at the upper and the lower specie points respectively, the Commission held that this system would still have serious defects, *viz.*, rupee will still be subject to the consequences of rise in the price of silver, rupee will follow sterling slavishly as regards its link with gold and would depreciate when sterling depreciated resulting in high prices in India. India's dependence on the currency of a single country, however stable, is disadvantageous (Para 25).

(b) **Gold Exchange Standard**. This would stabilize the rupee in terms of gold but will still have serious defects; same danger of rise in price of silver; lack of simplicity; mistrust, due to past experience, in the minds of the people; intangible backing for the token currency; right of convertibility is too abstract. Backing of currency should be certain, simple and solid. (Paras 29-31).

(c) **Gold Standard with Gold Currency**. Large absorption of gold by India will lead to substantial fall in gold prices in the world and curtailment of credit with unfavourable reactions on India as one unit in the world trade system: uncertainty of the estimate of the amount and time of gold demand; it would result in depression if gold price of silver fell and depreciated the value of silver hoards of the Indian people; China might also adopt gold in place of silver as a consequence of the fall in price of silver. This will make the position still worse; China's trade will be thrown out of gear; it would retard the progress of monetary reconstruction in Europe, would upset world prices and would be harmful to India and the rest of the world; United States with traditional silver interests will not support this policy and such support is essential for its success; finally the scheme will involve great expense. (Paras 35-52).

Thus the main features of this system were as follows :—

(1) The currency authority (the proposed Reserve Bank when established, in the meantime the Government) was to buy and sell gold (under statutory obligation) at certain fixed rates, in quantities not less than 400 fine ozs. (=1065 tolas). The conditions of the sale of gold were to be so fixed that normally the currency authority would not be called upon to supply gold for non-monetary purposes.

(2) Sovereigns and half-sovereigns were to cease to be legal tender ; rupees to continue full legal tender.

(3) Government savings certificates to be issued to people for three or five years, to be paid in rupees or gold at their option. This was to inspire confidence in the minds of the people for the new system.

(4) The existing currency notes were to continue to be convertible into rupees, the new notes though not to be legally convertible, the facilities for conversion were to continue.

(5) One-rupee notes to be issued which were to be full legal tender but not convertible into rupee coins.

(6) The Gold Standard and the Paper Currency Reserves were to be amalgamated.

Several advantages were claimed for this system :—

(a) It would secure stability of exchange by making the currency convertible into gold at a fixed rate.

(b) It was simple and certain : thus it would inspire confidence.

(c) Automatic currency would expand when gold was given in exchange for rupee coins and notes, and would contract when rupees and notes were given in exchange for gold.

(d) Cheap : gold would remain in reserve and not circulate.

(e) Would pave the way for the introduction of gold currency at some future date when enough gold had accumulated.

On the other hand the Gold Bullion Standard was criticized on several grounds :—

(a) For the ordinary persons the gold backing was neither visible nor tangible. Only big bankers and bullion brokers could purchase gold of quantities of 400 ozs. (1065 tolas).

(b) Even these people could not normally find it worth-while¹ to get gold from the currency authority, nor was it the intention that they should.

The purchase of gold from the currency authority was to be worth-while only when it was required for making payments abroad. "As far as the ordinary holder of the rupee is concerned he would not be able to convert them into gold, when he must buy it in the bazar as at present."²

It was thus contended that there was no essential difference between the gold exchange system and the Gold Bullion standard of the Commission. Only the obligation to buy and sell gold for export was made statutory. The Indian opinion as before favoured a full-fledged gold standard with gold currency.³ And this was supported by authorities like Dr. Cannan and Dr. Gregory in their evidence before the Young Commission.

3. The Case for 1s. 6d. Ratio : The greatest controversy, however, arose in connection with the ratio of exchange. The Commission recommended 1s. 6d. (8.47 grs. of gold) as the rate at which the rupee should be stabilized with the sterling. Sir Parshotamdas Thakurdas, a member of the Commission (and a

1. At the ratio of 1s. 6d. (gold) per rupee the gold was priced at Rs. 21-3-10. And this was the rate at which the currency authority undertook to sell gold. When the rate of exchange is 1s 6-3/16d (upper gold point) or more the equivalent in rupees of a tola of fine gold would be less than Rs. 21-3-10. People would in such circumstances buy gold from the market where it would be cheaper than from the currency authority. "When the exchange is below the upper gold point the selling rate for gold will not be Rs. 21-3-10 but more. The Reserve Bank shall sell gold in that case for delivery at its office at Bombay at notified prices, and these prices will be fixed so as to free the Bank in normal circumstances from the task of supplying gold for non-monetary purposes." (Brij Narain : Indian Economic Life, Past and Present).

2. Brij Narain : Indian Economic Life, p. 244.

3. Since Indian opinion has always stressed the necessity of a gold currency standard for India, it would be instructive to give here the main points of the case for the system :—

(a) It will be automatic. Prices and exchange will be kept in equilibrium with the world by export and import of gold freely as the situation may require. (This, however, will not be the case if the people hoarded the gold thus imported.)

(b) It will discourage the habit of hoarding. (The Young Commission did not think so.)

(c) It will inspire confidence, currency backing being visible and tangible.

(d) People want gold circulation as shown by the absorption of imported sovereigns between 1900 and 1914. Academic opinion in India also favours it.

(e) Gold currency is a necessary stage in passing to gold standard without gold currency. (See also Reports, Chamberlain Commission, para 56 and Young Commission, paras 34, 56-57.)

big industrialist) in his minute of dissent¹ (appended with the Report) proposed 1s. 4d. (the pre-war ratio) as the proper rate. Although the 1s. 6d. rate was accepted by the Government and was enforced by an Act of 1927, the ratio controversy raised its head again and again until the outbreak of the World War II. The Indian commercial and academic opinion agreed at the time of the Report with Sir Thakurdas and after 1927 demanded again and again the return to 1s. 4d. The Government, on the other hand, after accepting and enforcing the recommendation of the Commission, stubbornly stood by 1s. 6d.

The arguments given by the Commission in favour of 1s. 6d. are given below :—

(1) At 1s. 6d. prices in India had already attained a substantial measure of adjustment¹ with prices in the world at large, and change would mean a difficult period of readjustment and widespread economic disturbance. (Para 176).

(2) There was justification in assuming, where exchange and price showed steadiness over a considerable period, that wages were in adjustment, unless there were any clear indications to the contrary. The statistics of foreign trade afforded no such contrary indication, but rather strengthened the assumption. (Para 192).

(3) If the prices and wages were not in adjustment with 1s. 6d. it could not be said that they were in adjustment with 1s. 4d. because the latter rate had never been effective at any time during the previous eight years. If adjustment had taken place at all, it must be with 1s. 6d.

(4) In these circumstances a reversion to 1s. 4d. would produce a general rise of prices to the extent of 12½ per cent and

1. The statistical evidence adduced by the Commission was as follows :—

(i) During eighteen months, from December 1922 to June 1924, while the rupee was worth about 1s. 3d. (gold), the rupee price level ranged round a mean of about 176.

(ii) In the succeeding year, while the rupee was rising to 1s. 6d. (gold), the rupee price level fell below 160.

(iii) Since then; while the rupee has remained or been held, at about 1s. 6d. (gold), the rupee price level has ranged round a mean of about 158, with a recent tendency to fall in sympathy with world prices.

The level of world gold prices, as indicated by the wholesale prices index figures of the United States and the United Kingdom, was (in spite of intermediate fluctuations) approximately the same at the beginning of period (i) and at the end of period (iii).

It is natural to conclude that, during the period of change, there was a mutual adjustment of prices and exchange, and that a substantial equilibrium was attained about the middle of 1925 and has been since maintained. (Para 183.)

would be hard especially upon the lower middle class consumers. It would be also reduce real wages. (Para 206).

(5) The finances of the Government, Central and Provincial, would be upset (on account of the rise in the rupee burden of the Home Charges when valued at 1s. 4d.) which would postpone indefinitely the abolition of provincial contributions. (Paras 207-208).

(6) As regards contracts, they were either short-period contracts entered into when the exchange was 1s. 6d., or they were concluded at a time when the exchange was unstable and it would be impossible to do justice to both sides whatever rate is fixed. (Paras 195-196). As regards land revenue many settlements were made when the exchange was 1s. 4d. but due to great rise in prices after 1914 the real burden of this charge had been lightened and thus the new ratio will not be a hardship on the agriculturists, (Para 194).

In criticism of the Commission it may be said that (i) the evidence regarding the adjustment of prices and wages was not conclusive because of the unreliability of the figures as confessed by the Commission themselves. (ii) They put too much emphasis on the effect of the 1s. 4d. ratio on Government finances, admitting that this factor was not to be regarded as decisive. (iii) Since there was already a downward tendency shown by world prices 1s. 4d. ratio would not have led to a rise of $12\frac{1}{2}$ per cent in Indian prices as alleged by the Commission. (iv) A period of just over one year was not enough for adjustment of prices. (v) The Commission minimized the effect on long-term contracts and also the losses of the agriculturists.

4. The Case for 1s. 4d. : Sir P. Thakurdas in support of the 1s. 6d. ratio brought forward the following arguments :—

(1) The adjustment between the Indian and world prices was not complete; the ratio of 1s. 6d. was artificially worked up by the Government by deliberate contraction of currency. Until adjustment was complete the 1s. 6d. ratio gave the foreign manufacturer an indirect bounty of $12\frac{1}{2}$ per cent which would place a heavy strain on the Indian industry.

(2) A change in the ratio would mean an additional burden of $12\frac{1}{2}$ per cent on the large debtor class who were mainly agriculturists. The debt being of long standing it was natural to assume that it was contracted when the ratio was 1s. 4d.

(3) The adverse effects on Government finances of going back to 1s. 4d. was exaggerated.

(4) The adverse effect of 1s. 4d. on a small class of the poorly paid literates (21%) should be allowed less weight than the effect upon the rest of the 79 per cent of the population. As regards labour the existing wages were high enough to cover the possible rise in their cost of living under 1s. 4d. Moreover at the lower rate they will benefit on account of the continuity of employment which industrial prosperity will bring.

(5) The 1s. 4d. was the pre-war ratio which had been disturbed for a time. Other countries were adopting pre-war ratios. If disturbance had to come in any case, the old ratio should be preferred.

In criticism of the above position it may be said that it was not established that substantial contraction of the currency had taken place. If it had, then prices must have fallen and adjustment, contended by the Commission, must have taken place. (ii) It was objected that the 1s. 6d. ratio would increase the burden of rural debt by lowering prices. But this should have been counter-balanced by the advantages of lower costs and cheaper implements which the higher ratio would bring.

5. Conclusion as regards the Ratio : On the whole, however, it may be said that in 1926 it was much easier to fix the rate at 1s. 6d. than at 1s. 4d. 1s. 6d. was the rate in fact for some time and the fixing of a lower rate would have resulted in excessive economic disturbances. Whatever the method by which the 1s. 6d. was reached once the rate had become stabilized at that point it would have been unwise to disturb it. As regards the policy of the Government in bringing about the 1s. 6d. rate by contraction of currency that cannot be defended. The exchange value of the rupee rose to 16d. gold in September, 1924 when the Legislative Assembly asked the Government to stabilize it at that rate. The Government rightly refused to do so because at that time excepting Germany no other important country had yet stabilized its exchanges. But the Government should have allowed the Exchange to remain at 1s. 4d. instead of artificially pushing it up to 1s. 6d. Had this been done there would have been no fall of the general index number of prices in India. And consequently there would have been no disturbance to the internal economic stability that was being painfully attained since 1921. The real fact was that the Indian authorities were following the British Government which was trying to raise the Dollar-Sterling rate to bring it up to the pre-war parity by deflationary methods. Keeping exchange at 1s. 4d., while sterling was appreciating in terms of the dollar, would not have injured British export trade with India,

because the disadvantage of exchange would have been counter-balanced by the advantage gained through lower prices of British goods.¹

6. The Act of 1927 : The scheme for establishing the Central Bank was rejected by the Assembly in 1927, but they approved the establishment of the Gold Bullion Standard by passing Act No. IV of 1927. This Act fixed the gold value of the rupee at 8.47512 grains for one rupee (1s. 6d. gold) and imposed a legal obligation on the Government to buy gold at Rs. 21-3-10 per tola in the form of bars containing not less than 40 tolas and to sell for legal tender currency, gold for delivery at the Bombay mint, or at the opinion of the Government sterling in London in amounts of not less than 400 ozs. (1,065 tolas). The selling rate for sterling was notified by the Government as 1s. 5-49/64 per rupee for meeting these obligations. Since the Government could exercise the option of giving sterling rather than gold, the system could be called Sterling Exchange Standard² as much as Gold Bullion Standard. Under the Act of 1927 sovereigns and half-sovereigns ceased to be legal tender though they could be received at all the currency offices at their bullion value at Rs. 13-5-4 per sovereign.

7. The Sterling Exchange Standard : The Gold Bullion Standard was superior to the pre-war Gold Exchange Standard, because under it the Government had a statutory obligation to buy gold and sell gold or sterling. But it still had some of the defects of the old system which the Young Commission had pointed out, viz., the conversion of one token currency (the note) into another (the rupee coin), the duplication of reserves and the separation of currency from credit control. The last two defects had to wait until the establishment of the Reserve Bank in 1935.

The new system, however, did not get much chance to show its success. On September 21, 1931, Great Britain was forced off the gold standard due to drain on its gold resources caused by withdrawals of foreign balances. This development had important reactions on the Indian currency and exchange system. Under

1. For further details see *Economic Problems of Modern India*, Vol. II, pp. 228—231.

2. "But it is fair to point out," says Dr. Jain, "that so long as the sterling did not go off the gold parity, the sterling exchange standard was as good or as bad as the gold exchange standard. Further, if the Government chose to exercise the further opinion, open to it, of offering gold in exchange for rupees, India would have had in point of fact, if not in law, a gold standard. Thus the standard of 1927, though a sterling exchange standard, was capable of becoming a gold standard and certainly indicated that gold standard was the ideal of the Government. (*Indian Monetary Problems*, p. 35.)

the Act of 1927, the Government had bought gold and sold sterling at the lower gold point until the 19th September. When the announcement of Britain having gone off the gold standard came, the Governor-General on the 21st promulgated an Ordinance suspending Section 5 of the Currency Act of 1927, the one dealing with the purchase and sale of gold and sterling. On the same day the Secretary of State informed a sub-committee of the Round Table Conference in London that it had been decided to maintain the rupee at 1s. 6d. sterling. On the 24th of September yet another Ordinance was promulgated (Gold and Sterling Sales Regulation Ordinance) which repealed the previous one, thus restoring the Currency Act of 1927, but authorizing the Government to sell gold or sterling for genuine trade requirements only and for reasonable personal or domestic purposes. The Imperial Bank was authorized to allocate exchange for the defined purposes. The selling price was fixed at 1s. 5-49/64 d. sterling as before. The rupee was thus linked to sterling in spite of resentment on the part of Indian opinion. One consequence of this link was that the rupee began to depreciate along with the sterling in terms of gold and currencies of countries still on gold, e.g., America and France. This resulted in the rise in the rupee price of gold and that metal began to flow out of the currency.¹ The Government took no steps to stop this outflow.

1. Economists are not agreed as to the cause of the outflow of gold from India. The generally held popular opinion is that the outflow of gold was due to the rise in its price in terms of rupees when the rupee (along with the sterling) depreciated in terms of gold after September 1931. But a mere rise in price of gold would not have caused an outflow of gold if this rise was exactly counterbalanced by the depreciation of the rupee in the exchange market. It is held by some, therefore, that it was the external undervaluation of the rupee that made it worth while to export gold which meant that the rupee price in India rose to a lesser degree than the depreciation in exchange. Dr. Dey, however, is of opinion that the explanation, though correct in a narrow technical sense, is not adequate, because if undervaluation of the rupee had been the main cause, gold exports would have increased as years advanced instead of decreasing, since India showed a progressive depreciation of the rupee in terms of sterling. Dr. Dey explains the export of gold as follows: "There was acute economic distress among the peasants and the zamindars due to disastrous fall of agricultural prices, which led to their savings in the form of gold hoards being drawn upon on a large scale. But (a) due to the ignorance of the villagers about the world price of gold, (b) pressure of intensive propaganda on the part of bullion dealers in the up-country centres causing quick dishoarding, and (c) distress sales, the internal price of gold at which it was bought by the bullion dealers was low as compared with the world price. Consequently, the export of gold became highly profitable for the bullion dealers. On the other hand, as economic conditions gradually improved due to the rise in prices and increase in exports, the distress was mitigated, dishoarding of gold declined, the disparity between internal and external price of gold became less and less, and gold exports began to diminish, even though the depreciation of the rupee in terms

The policy of the Government in this connection has been criticized on three grounds: (i) Linking the rupee with the sterling instead of gold. (ii) Still keeping to the 1s. 6d. ratio. (iii) Taking no steps to stem the outflow of gold. These points demand consideration.

8. The Sterling Link: The linking of the rupee with the sterling was criticized on various grounds: Firstly, that the rupee was thus made to share the fluctuations of the sterling, the latter reflecting the conditions in Britain and not in India. Secondly, though India's export trade with the gold standard countries would be encouraged, on account of the depreciation of the rupee in terms of gold, it would discourage Indian imports from these countries, while England would enjoy a sort of an Imperial Preference in the Indian market. Thirdly, that the sterling link would bring India back to the gold standard¹ when Britain decided to bring sterling back to gold, irrespective of the economic conditions in India. Finally, that the rise in the rupee price of gold would lead to gold exports from India, as it actually happened.

The Government on the other hand justified the sterling link and supported their policy by the following arguments:—

(i) It was better from the point of view of stability to link the rupee with sterling than to let it drift. (ii) India had at the time £32,000,000 sterling obligations and a sterling loan of £15,000,000 was maturing early in 1932. If the rupee was not linked with the sterling the difficulties of raising funds for these payments would have been insuperable. (iii) Being a debtor country, India could not afford to risk the rupee being left alone. (iv) A considerable proportion of India's foreign trade was with England or countries on sterling. It was wise, therefore, to secure a stable basis at least for this trade. (v) Depreciation of the rupee in relation to gold would give a welcome stimulus to India's export trade with gold standard countries.

of sterling and gold remained great or kept on increasing. "... Had a rise in Indian prices of gold and commodities," he continues, "been brought about by a proper degree of inflation, the rupee's internal overvaluation would have been checked," and its external undervaluation, in terms of gold and the pound sterling largely eliminated, and gold exports would have been minimised." Dey, op. cit. pp. 237-38.

1. The preamble of the Reserve Bank Act makes the position clear in this respect. It lays down that the Sterling Exchange Standard is only a provisional arrangement. When normal monetary conditions are restored in the world the Reserve Bank will put forward a scheme for a permanent monetary standard for India.

If the sterling link was not adopted there were two other alternatives open to the Government, (a) to adopt the gold standard, (b) to keep on an independent standard. India could not have maintained the gold standard for long. Only a country like America with an abnormally large gold reserves could do it. Within a few years like the gold bloc countries (e.g., France) India would have been forced off the gold. On the other hand, it is doubtful if India would have succeeded in managing an independent standard in view of her position as a debtor country with large foreign obligations, her export trade exposed to various restrictions in other countries and her lack of a proper Central Bank. In a period of chaotic currency conditions, therefore, maintaining the sterling link was perhaps the lesser evil especially when a substantial position of India's trade was with the sterling bloc.

9. Gold Exports : Between September 1931, when England left the gold standard and January 1940, India exported gold to the value of Rs. 351.4 crores. The net imports of gold into India from 1910-11 to 1930-31 were Rs. 457.86 crores. Thus in about eight years India lost four-fifths of the gold that she had imported in 21 years. The Indian opinion urged the Government, when the gold exports began, to take measures to stop this outflow of the precious metal. The Government did nothing of the kind and supported their inaction on the following grounds:—

(i) Gold exports are a normal feature of a country's trade and there is nothing abnormal about it.

(ii) Gold exports have improved the credit of the Government, enabled it to stabilize exchange by purchase of sterling at favourable prices, and made it possible for her to pay off £15 million of her sterling debt and to reduce their floating debt in India by creating fresh currency required to pay for the gold.

(iii) Gold exports (by keeping up the price of gold) have strengthened India's public reserves, the market value of which increased by five crores of rupees.

(iv) By sale of gold the agriculturists have been able to live on their reserves through difficult times, making huge profits into the bargain.

(v) Gold exports have stimulated international trade by enabling India to buy more of foreign goods thus increasing the purchasing power of her potential customers.

On the other hand, the critics of the Government alleged that, (i) the exports of gold have meant "the wastage of India's

gold resources, the wreckage of the indigenous banking system and a drain on the accumulated savings of generations,¹ (ii) that it had concealed the fact the rupee was overvalued at 1s. 6d. by enabling the Government to maintain the ratio at that point, (iii) that the loss of gold had made it impossible for India to reach her goal of a gold standard, and that it would be difficult to make up this loss, (iv) that almost every other country was sitting tight on their gold resources while India was losing them, (v) finally that the exported gold was "distress gold" and people were merely living on their capital, a process which could not continue long.

It was suggested that the Government should purchase this gold either herself or should make the Reserve Bank of India purchase it in order to strengthen its gold reserves. Some suggested an embargo on the exports of gold and others a heavy export duty. To the suggestion of a duty on gold export the Finance Member pointed out (1936) in the Assembly that the burden would ultimately fall on the agriculturist seller of gold through the fall in its price. As regards the buying of gold in unlimited quantity by the Reserve Bank of India on behalf of the Government, it was pointed out that it would mean speculation in gold, as the buying rate would have to be fixed with reference to the fluctuating dollar-sterling cross-rate. "It is true," wrote Dr. Dey, "that both the U.S.A. and the United Kingdom have accumulated large gold reserves at high costs during the depression. But all students of recent monetary conditions know that it has now (1938) become a grave problem for these two countries to decide what should be done with these costly gold stocks."² Britain, however, had to disburse her gold resources to finance the present war. If the Reserve Bank had staken the risk of purchasing gold at that time it would have made enormous profits now that the price of that metal has risen so much.³ For this reason and others given in the previous paragraph we do not agree with Dr. Dey when he says that "the policy that has been actually followed by the Government of India with regard to gold has been the wisest under the circumstances of the case."⁴

1. Jathar and Beri, *Indian Economics*, Vol. II, p. 372.

2. *Economic Problems of Modern India*, op. cit. p. 240.

3. The price of gold in August 1931 was Rs. 21-13-3 per tola, by December 1931 was Rs. 29-2-0, by March 1940 it was Rs. 36-13-3, by September 1937 it was about Rs. 37, by December 1940 it reached Rs. 42 per tola, in November 1944 it was Rs. 68 per tola, in Nov. 1945 it was Rs. 82 per tola, and now (Oct. 1948) Rs. 114 per tola.

4. Dey, op. cit. p. 241.

10. The Case for Devaluation : From the time the Government enforced the 1s. 6d. ratio under the Currency Act, 1927, vocal public opinion in India continued pressing for its revision.¹ In fact the case for revision was very strong indeed until the World War II broke out and changed the whole situation. The case for devaluation of the rupee, as it was put from time to time between 1929-1939, may be summarised as follows :

(i) The rupee was all along overvalued at the rate of 1s. 6d. and the Government was able to maintain the rate by drastic deflationary measures : (a) by contracting currency—between

1. When the depression appeared after the autumn of 1929 the agitation for revision of the ratio increased, especially when it was found that the Government was finding it difficult to maintain the rate at 1s. 6d. on account of the great fall in our export surplus. It was again urged, at the time of the linking of the rupee to sterling at the old rate, that the case for revision was strong. The question was again raised at the time when the matter of the proposed Reserve Bank's exchange obligations was being discussed by the London Committee on the Reserve Bank, then by the Joint Select Committee (1933) and again when the Reserve Bank Bill came before the Assembly. The ratio clauses (40 and 41) finally embodied in the Act gave effect to the recommendation of the London Committee that the existing ratio should be preserved, but that the whole question of the monetary standard suited to India should be reviewed when the international situation clarified itself and became sufficiently stable to make it possible to frame more permanent provisions. This arrangement, however, did not satisfy Indian opinion. In August 1935 Mr. Manu Subedar (President, Indian Merchants' Chamber and Bureau, Bombay) in welcoming Sir James Grigg (then Finance Member) suggested to review the ratio with a view to giving relief to the cultivator. To this the latter replied that he would be "no party to any monkeying with the present ratio", that the change would not help the agriculturist and might lead to worsening of his position.

The controversy flared up again early in October 1936, when the franc and other currencies of the gold bloc were devaluated. The Government was urged to devalue the rupee, which would raise prices of primary produce, revive export trade and obviate export of gold. The Government spokesmen argued that devaluation at that juncture would constitute a breach of the Tripartite Monetary Agreement (of 1936) signed by U.K., U.S.A. and France. Moreover, they said that the sterling link had already devaluated the rupee by about 40 per cent. in relation to gold. Further, that devaluation might provoke retaliation from competitor countries.

In 1938 again there was agitation for devaluation on account of weakening of exchange in June of that year. The Congress Working Committee took up the question. The Government in a 'communique' issued on June 6, 1938, declared their satisfaction with the existing ratio. In September 1938 an unsuccessful attempt was made by some unofficial members of the Central Legislature to secure the appointment of a committee to report on the ratio question. The balance of trade and exchange improved during the succeeding months and on December 16, 1938, the Government issued another press 'communique' repeating their decision to maintain exchange at 1s. 6d. as before. Exchange remained steady on the whole during 1939 up to the outbreak of the war, which entirely changed the situation.

1926-27 to 1930-31 currency was contracted to the extent of 102½ crores of rupees; (b) by raising the lending rate to the Imperial Bank of emergency currency under the Act of 1923; (c) by the sale of sterling and depleting the sterling resources of the Reserve Bank (Issue Department). The result of this deflationary policy was disastrous for Indian agriculture and industry especially the former during the Depression years from 1929 onwards.

(ii) That the rupee was overvalued at 1s. 6d. was indicated by the various symptoms and criteria of overvaluation accepted by economic theory and practice, such as (a) the sagging prices, (b) industrial stagnation, (c) unfavourable terms of trade, (d) almost disappearance of export surplus.

(a) Between 1928 and 1933 Indian prices fell to a larger extent (40 per cent.) as compared with British prices (36.4 per cent.). And by 1936 while English prices recovered by 16.3 per cent., Indian prices only recovered by 5.7 per cent. Thus Indian prices fell more and rose less during the period.

(b) Industrial stagnation was shown by figures of aggregate profits of certain industries. These profits fell from a total of Rs. 10.9 crores in 1928 to Rs. 2.6 crores in 1931 and rose slowly only to Rs. 5 crores in 1935.

(c) The barter terms of trade were also unfavourable to India during this period. This is shown by the fact that the prices of her exports fell to a greater extent than those of her imports. Between 1927-28 and 1933-34 while the index number of export prices fell by 46.5 per cent., that of import prices declined only to the extent of 34.8 per cent.

(d) The merchandise export surplus also showed serious decline. The net export of private merchandise (excluding Government stores) were as follows during the depression years :

Years		Rs. Crores	Year		Rs. Crores
1930-31	...	61.0	1935-36	...	29.8
1931-32	...	34.0	1936-37	...	77.1
1932-33	...	3.5	1937-38	...	15.4
1933-34	...	34.4	1938-39	...	16.8
1934-35	...	23.4	1939-40	...	47.8

(iii) In other countries, especially agricultural countries, the situation was met by their Governments by depreciating their currencies. The depreciation of the rupee in terms of gold that had occurred by linking the rupee with the sterling in 1931 was obviously not enough as was indicated by the tests given above. India was at a disadvantage with respect to her competitors the values of whose currencies had been considerably reduced. This is indicated by the following :—

Country					Value of currency in 1933 as percentage of their value in 1913.
Belgium	...	...	...	...	22.6
France	...	...	...	...	31.5
Greece	...	...	...	...	4.5
Italy	...	...	...	...	42.0
Portugal	...	...	...	...	4.5
Spain	...	...	...	...	68.0
Japan	...	...	...	...	50.0
U.S.A.	...	...	...	...	90.0
Australia	...	...	...	...	75.0
New Zealand	...	...	...	...	75.0

(iv) It was further urged that the real state of affairs was being obscured by the export of gold which was enabling the Government to maintain the rate at 1s. 6d. But gold export could not go on indefinitely. "Gold exports are at best only postponing the evil," wrote Dr. L. C. Jain, "when they cease, and it should not be very long before they cease, a situation of the gravest character will arise if things are allowed to drift in the mere expectation of international action leading to world prosperity."¹

(v) Some people urged that the issue was not between the 1s. 6d. and the 1s. 4d. ratio. The issue was much wider. It involved wider aspects of policy. The anxiety of the Government all along the currency history of India since 1893 has been to ensure stability of exchange at one level or the other. It was urged that under the modern conditions of national economies the emphasis on exchange stability at the expense of the stability of economic life within the country is a wrong policy. A policy of flexible exchange is preferable, since by this method the relationship between costs and prices can be kept in equilibrium to ensure profitable working of industry and agriculture. Such an exchange ratio is the really *natural* ratio for a country. England sought this natural level by depreciating the sterling in 1931. But the natural level of exchange for England is not necessarily the natural level for India.²

But the Government refused to have any 'monkeying' with the exchange as the Finance Member Sir James Grigg put it. Then came the war and the whole outlook changed.

11. The Reserve Bank as Currency Authority. In the meantime from April 1 1935 the control of Currency was passed from the hands of the Government to the new central bank—

1. L. C. Jain : Monetary Problems of India, p. 15.

2. For an excellent exposition of this thesis read article by B. N. Ganguli in Economic Problems of India, pp. 223-324. Also read his "Whither Rupee"?

the Reserve Bank of India—to whom were transferred the Paper Currency and the Gold Standard Reserve. This removed two defects of the Indian currency system pointed out by the Hilton Young Commission, *viz.*, duplication of reserves and division of responsibility for the control of currency and credit. The evolution of our paper currency system will be studied in the next chapter and the system of credit in a subsequent chapter in connection with Banking. Here something may be said about the role of the Reserve Bank in the maintenance of the Sterling Exchange Standard.

The Reserve Bank was required to maintain the 1s. 6d. sterling ratio by buying and selling sterling at specified rates. Clause 40 of the Reserve Bank Act required the Bank to sell sterling to any person who made a demand in that behalf at its office in Bombay, Calcutta, Delhi, Madras or Rangoon and paid the purchase price in legal tender currency, for immediate delivery in London at a rate not below 1s. 5-49/64d. for a rupee. This provision was intended to prevent the rupee from falling below 1s. 5-49/54d. (this was obtained by deducting from 1s. 6d. the cost of buying down in London this amount). Clause 41 made it necessary for the Bank to buy sterling from any person who made an offer in that behalf at its office in Bombay, Calcutta, Delhi, Madras or, Rangoon, for immediate delivery in London at a rate not higher than 1s. 6-3/16d. for a rupee. (This was found by adding to 1s. 6d. the cost of transporting this amount from London to Bombay). These two points corresponded to the lower and upper specie points under the Gold Standard.

Thus the Reserve Bank Act legalized the existing ratio. The preamble to the Act, however, incorporated the recommendation of the London Committee on the Reserve Bank Legislation, that the question of the monetary standard best suited to India should be considered when the international monetary situation had become sufficiency clear to make it possible to frame permanent measures. When such a contingency arose Clause 55 of the Act required the Bank to report its views to the Governor-General-in-Council as regards the suitable permanent basis for the Indian monetary system, and to frame measures for the future monetary standard of India.

12. Sterling Link Broken: At the end of 1946 India became a member of the International Monetary Fund (see chapter XIX, Section 20). As a consequence the Reserve Bank Act was amended in the Budget Session of 1947. The amendment replaced Sections 40 and 41 (as explained above) and obliged the Reserve Bank to sell and buy foreign exchange at such rates of

exchange as may from time to time be determined by the Government of India by general or special order. Section 179 of the Bank Act was also amended so as to enable the Reserve Bank to buy and sell securities issued by the Government of any country outside India which is a member of the I. M. F. The effect of all this is that whereas previously the rate of exchange of the rupee was fixed by law in terms of sterling it is now left to the Government of India to fix it in terms of foreign currencies subject to such conditions as are consistent with the obligations under the rules of the I. M. F.

CHAPTER XXIV

CURRENCY AND EXCHANGE (CONTD.)

INDIAN PAPER CURRENCY

1. Introduction : In the last two chapters we traced the history of Indian currency system primarily from the point of view of the establishment and maintenance of the standard of value, whether be it silver, gold or sterling. We made only relevant references to the main currency units: the rupee coin and the notes which constitute the media of payments in our countries. The rupee we have seen was full-value coin up to 1893 after which it became a token coin. After that date it was no more than a note printed on silver. But the paper note was assuming greater and greater importance with the lapse of time. There are certain problems connected with the management and methods of note issue which deserve our attention in greater detail. We shall deal with them historically.

2. Paper Currency Before 1914 : Notes were practically unknown in India until the beginning of the 19th century when the Bank of Bengal was founded in 1806 and was given the privilege of issuing notes. Later the other two presidency banks, the Bank of Bombay (1840) and the Bank of Madras (1843) were established and enjoyed the same privilege. These were private institutions but the Government had subscribed to their shares and had representation on their management. Each bank could issue notes up to a fixed minimum and had to keep a reserve of $33\frac{1}{3}$ (later 25) per cent. in the form of specie. These notes were not legal tender in the country and were only popular in the presidency towns. The amount of note-issue consequently was very small.

In 1861 by an Act (No. XIX of that year) the Government assumed the monopoly of note-issue in India. A Paper Currency Department was constituted for this purpose. The country was divided into three circles of issue, *viz.*, Calcutta, Madras and Bombay. The notes issued by each circle were legal tender only in that circle. Later, the number of circles was increased to seven with the addition of four more circles, *viz.*, Lahore, Karachi, Cawnpore and Rangoon. Notes were issued of the denominations of Rs. 10, Rs. 50, Rs. 100, Rs. 500, Rs. 1,000, Rs. 10,000.

The currency principle of note-issue as embodied in the British Charter Act of 1844 was followed. The fiduciary portion of the Paper Currency Reserve was fixed at Rs. 4 crores. Over and above this limit metallic reserve (silver coin and bullion) of equal value had to be kept.

The above arrangement was excellent from the point of view of the security of the issue, but it was neither convenient nor did it secure elasticity for the Paper Currency. The inconvenience was caused on account of the narrow area over which the note was legal tender and convertible. This defect was removed when gradually the notes of one denomination after another were universalized. The five-rupee note (issued in 1891) was universalized in 1903, Rs. 10 and Rs. 50 notes in 1910, Rs. 100 note in 1911 and Rs. 500 and 1,000 subsequently in 1931-32.

Elasticity of a currency implies its expansion and contraction according to the demands of trade. The Indian system was inelastic because beyond the fiduciary limit of Rs. 4 crores paper currency could be expanded only against metallic reserve of equal value. Some elasticity was obtained, however, during the period under consideration (i) by raising the fiduciary limit from time to time by legislation until it stood at Rs. 14 crores in 1914; (ii) by closing in 1893 the mints against the free coinage of rupee coins, thus making the rupee a token coin. This required less silver to be kept in reserve than previously (a ten-rupee note could be issued by keeping silver worth Rs. 6 only). But this was not enough.

The paper currency reserve originally consisted of silver coin and bullion as regards the metallic portion, and the Government of India rupee securities¹ as regards the fiduciary portion. In 1898 the Gold Note Act was passed which authorized the Government to hold any part of the metallic portion of the reserve in the form of gold coin. Another Act in 1900 authorised the holding of a part of this gold in London. An Act of 1905 allowed the Government to hold it either in India or in London, in gold coin or bullion, in silver coin or bullion, provided all coined rupees were kept in India. As regards the fiduciary portion an Act of 1905 authorized that up to two crores of rupees it may be kept in sterling securities.

As the fiduciary portion was only raised infrequently with the expansion of circulation the metallic reserve increased and formed sometimes as much as 80 to 85 per cent of the total.

1. Paper representing loans to the Government of India in the form of rupees.

This was encouraged because the liquid portion of the reserve began to be used to support exchange. At the end of the period under discussion therefore three criticisms were commonly made against the paper currency reserve :

- (a) that it had unduly large metallic portion :
- (b) that fiduciary portion could not be increased without legislation : and
- (c) that a part of it was invested in sterling securities in London, instead of being kept in India.

The first two characteristics made the system inelastic. In justification of keeping a part of the reserve in London it was said that it helped in maintaining exchange and saved any losses arising out of its depreciation in the case of a crisis in India.

Other defects of the system at that time were :—

(i) the function of note-issue and that of banking were in the hands of different authorities.

(ii) The Government had no banker. The balances of the Government were kept in their own treasuries under what was called the "Reserve Treasury System".¹ This locked up funds and led to financial stringency in the busy season.

(iii) The internal currency was inelastic. The only way it could be expanded in the busy season was by the purchase of Council Bills or import of sovereigns.

Elasticity in other countries is usually obtained by the use of deposits and cheques and by the issue of paper currency against commercial bills of exchange during the busy season, etc. The habit of banking was not much developed in India and there was scarcity of bills on account of the trade being usually financed by the method of cash credit instead of bills. Moreover Government funds in other countries are placed with a central bank and are thus available to meet demands of trade. In India there was no such bank.

3. Indian Paper Currency and the War, 1914-1919 : During this period two expert bodies—the Chamberlain Commission and

1. Between 1863 and 1876 Government balances at headquarters were kept with the Presidency Banks. But since Government experienced difficulties in getting their funds back, they established in 1876 their own treasuries called the Reserve Treasuries at Bombay, Calcutta and Madras. Henceforth only small amounts were kept for day-to-day requirements in district and taluka treasuries. Since the heavy revenue payments synchronized with the active business season, funds were locked in the treasuries at the very time when the money market required them. The system was abolished in 1921 when the Government balances were passed on to the Imperial Bank established that year.

the Babington Smith Committee—investigated the Indian currency system and made recommendations, among others, for the improvement of the paper currency system. Between these two investigations the Indian system was affected by the Great War of 1914-18.

The Chamberlain Commission with a view to introducing further measures of elasticity recommended that the fiduciary portion of the reserve should be increased from Rs. 14 crores to Rs. 20 crores. After this it should be fixed at a figure obtained as follows :—

Notes held in Reserve Treasuries plus $\frac{1}{3}$ of the net circulation (Gross circulation—notes held in Reserve Treasuries).

Other recommendations of this Commission with respect to paper currency were :—

(i) Government should take power to make temporary investments in India and in London from the fiduciary portion of the Reserve as an alternative to investment in permanent securities. In India loans should be made to Presidency Banks and in London the Secretary of State should be empowered to lend the proceeds realized from the sale of Council Drafts sold against currency reserve in the busy season, provided the total cash portion of the Reserve should not fall below $\frac{2}{3}$ of the net circulation. (i) The use of notes should be encouraged by all legitimate means. (iii) Facilities for encashment of notes should be extended; and (iv) the Rs. 500 notes should be universalized.

The idea of the Commission was to make the note-issue both elastic and popular. Temporary lending in India would enable the Government to increase currency during the busy season and earn interest on it. In England it would enable the Secretary of State to sell Council Drafts against the paper currency reserve in anticipation of silver purchases or any other purpose without the loss of interest.

The outbreak of the war, however, prevented any action being taken on these recommendations at least for the time being.

The war, during its first year, put the paper currency system under a great strain. There was a rush for conversion of notes into gold. In five days from the 1st to the 4th of August the Government gave out £1,800,000 worth of gold but then refused to issue any more gold to the public. Rs. 10 crores worth of notes were returned during the 1st eight months of the war. Confidence was, however, quickly restored and from 1915 onwards there was great demand for paper currency. Because of the scarcity of

the precious metals notes had to be issued against securities and the fiduciary limit was raised from Rs. 20 crores in 1914 to Rs. 120 crores in 1919. Consequently the proportion of the metal in the reserve fell from 78.9 per cent. in 1914 to 35 per cent. in 1919. New notes¹ of Re. 1 and Rs. 2½ denominations were issued to meet the scarcity of rupee coins. Extra-legal facilities for conversion were discontinued. Demand for coins was also met by the purchase of 200 million ozs. of silver from America. As the rate of interest increased the value of the securities in the Paper Currency Reserve declined. In order to replace them by more suitable securities it was decided to create a Paper Currency Depreciation Fund out of the interest received on paper currency investments.

When the war ended, the Babington Smith Committee of 1919 examined the Indian currency system. The Committee aimed at imparting elasticity to the rupee currency and was also anxious to see that the note-issue was backed by adequate metallic reserve. To these ends the Committee recommended : (i) The metallic portion of the reserve should be least 40 per cent. of the gross circulation, and the gold in the reserve should be revalued at 2s. to a rupee (instead of 16d. as before the war). (ii) The fiduciary limit should continue to be Rs. 120 crores, of which not more than Rs. 20 crores should be securities of the Government of India. (iii) Over and above the normal fiduciary issue, provision should be made for the issue of additional currency in the busy season up to Rs. 5 crores, in the form of loans to the Presidency Banks on the security of Export Bills. (iv) The silver and gold in the Paper Currency Reserve should be held in India except the amount required for the purchase of silver in London. (v) War-time restrictions on encashment of notes should be removed as soon as circumstances permit ; and the Government should have the option of redeeming their notes in full legal tender gold or silver coins.

4. Paper Currency from 1910 to 1934 : This period saw the emergence of the Imperial Bank by the amalgamation of the three Presidency Banks (1921) which took up some of the functions of the Central Bank, and the proposal by the Hilton-Young Commission for the establishment of the Reserve Bank as the note-issuing authority and legislation regarding the constitution of the Paper Currency Reserve.

In September, 1919, a temporary amendment had been made of the Paper Currency Act, according to which Rs. 100 crores out

1. These notes were cancelled in January, 1926.

of the fiduciary portion of the Paper Currency Reserve were to be held in London in British Treasury Bills. In March 1920 a temporary Act was passed for six months which allowed the fiduciary limit to remain at Rs. 120 crores as before but abolished the restriction on the location of the investments and their sterling or rupee character. In October 1920 the Indian Paper Currency Act was passed replacing the temporary Act of March, 1920. This Act was subsequently replaced by a consolidating Act in 1923, which, in its turn, was amended in 1923 and 1925.

The final provisions of legislation were as follows:—

(a) *Permanent Provisions.*

(i) The metallic portion of the Paper Currency Reserve was to be not less than 50 per cent. of the whole.

(ii) The Government of India securities in the Reserve were to be Rs. 20 crores in amount, and of these the created (*ad hoc*) securities were not to exceed Rs. 12 crores.

(iii) The Governor-General-in-Council was empowered by the original Act to issue currency notes up to Rs. 5 crores against inland bills of exchange maturing within 90 days. This additional issue of currency could be made on payment to the Government by the Imperial Bank of India interest at a rate not lower than 8 per cent. The extra note-issue was raised from Rs. 5 crores to Rs. 12 crores by the amendment of 1923; and in 1924 it was laid down that of these Rs. 4 crores were to be issued when the Imperial Bank rate rose to 6 per cent. and the remaining 8 crores when it rose to 8 per cent.

(b) *Transitory Provisions.*

Owing to the difficulty caused by reducing the Reserve on the basis of Rs. 10 to the sovereign instead of Rs. 15, certain transitory provisions became necessary, pending the final attainment of the permanent provisions. This revaluation made the metallic portion less than 50 per cent. It was, therefore, provided that the fiduciary portion be fixed at Rs. 85 crores (raised to Rs. 100 crores in 1925) for the time being. It was also provided that the Government should be authorised to create securities of their own (*ad hoc* securities) and issue them to the Controller of Currency to fill in the gap caused by revaluation of the gold. Such securities were to be gradually reduced to Rs. 12 crores, the amount permissible under the permanent provisions.

This legislation followed closely the recommendations of the Smith Committee except that the metallic portion of the reserve was fixed at 50 per cent. instead of 40 per cent. as recommended by the Committee.

The Hilton Young Commission of 1926 recommended the establishment of a Reserve Bank to which the sole right of note-issue was to be transferred. The Government notes were to cease to be legal tender except at Government Treasuries, while the notes of the Bank were to be full legal tender and guaranteed by the Government. Legal obligations to convert paper currency into silver coin were to be withdrawn. The Paper Currency and Gold Standard Reserves were to be amalgamated and the Proportional Reserve Principle of note-issue was to be followed. The proportion of the silver in the reserve was to be reduced during the next ten years.

The establishment of the Reserve Bank was delayed until 1935, but a Currency Act was passed in 1927 (Act IV of that year). On April 1, when this Act became effective the sterling securities held in the Paper Currency Reserve were revalued at Rs. 13-13 to the sovereign as provided by the Act. This resulted in an increase in value of the securities amounting to Rs. 930 lakhs. To this amount the Indian Treasury Bills were cancelled. The permanent provisions of the Act of 1923, however, never became effective because of the difficulties of replacing rupee securities on account of unsatisfactory financial position which diverted to revenue the resources¹ from which such securities had to be purchased.

5. The Reserve Bank as the Issuing Authority: The Reserve Bank Act which was passed in 1934, gave the sole right of note-issue to the Reserve Bank of India which started its operations from the 1st of April 1935. The note-issue function of the Bank is performed by its Issue Department.

The Gold Standard and the Paper Currency Reserve have been amalgamated and the entire gold stock has been transferred to the Bank, which the Bank keeps in its Issue Department.

“The assets of the Issue Department consist of gold coin, gold bullion, sterling securities, rupee coins and rupee securities. Of the total assets not less than 40 per cent. must under the law consist of gold coin, gold bullion or sterling securities, provided that the amount of gold coin and gold bullion is not at any time

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1. These sources were to be as follows:—
 - (a) Interest derived from securities in the Paper Currency Reserve.
 - (b) Profits on the fresh coinage of rupees.
 - (c) Interest on the Gold Standard Reserve when it exceeded £40 million which it did on September 30, 1921.
 - (d) Interest on commercial bills of exchange deposited with Controller of Currency.

less than Rs. 40 crores in value. With the previous sanction of the Central Government, however, the Bank may hold gold coin, gold bullion or sterling securities of less than 40 per cent. of the assets for limited periods provided that it pays a specified tax on the deficiency. In actual practice, however, the bank has so far maintained a much higher percentage of gold and sterling securities against its total liabilities in the Issue Department. . . . The sterling assets which the Bank can hold in the Issue Department are limited to (a) balances held with the Bank of England, (b) bills of exchange bearing two or more good signatures and drawn on and payable at any place in the United Kingdom and having a maturity not exceeding 90 days, and (c) Government securities of the United Kingdom maturing within five years."¹

The Reserve Bank issued its own notes for the 1st time in January, 1938, when notes of the denominations of Rs. 5 and Rs. 10 were issued. Later in the year notes of the denominations of Rs. 100, Rs. 1,000 and Rs. 10,000 were also issued. In the same year the Bank also issued notes for Burma for which territory it also performed Central Banking functions under agreement.

For the efficient management of note-issue the country (including Burma) was divided into seven circles of issue each to be served by a branch of the Issue Department. These branches were located at Calcutta, Cawnpore, Lahore, Bombay, Karachi, Madras, Rangoon.

To provide currency for the transactions of the Government and reasonable remittance facilities to the public the Issue Department maintained currency chests containing notes and rupee coins at all important places in British India and Burma.

6. Expansion and Contraction of Currency: Under the Reserve Bank Act the Assets of the Issue Department as we have seen are kept in the form of—

- (i) rupee coin including rupee notes ;
- (ii) gold coin and bullion ;
- (iii) rupee securities, including treasury bills ; and
- (vi) sterling securities.

Expansion of currency can be effected by increasing any of these forms of assets and issuing notes of equal value from the Issue Department. Contraction of currency is similarly effected by withdrawing notes from circulation and reducing any of the assets. "Ordinarily in the case of expansion the Bank increases

1. Functions and Working of the Reserve Bank of India, issued by the Reserve Bank, p. 7.

the assets of the Issue Department by transferring rupee or sterling securities or both from the Banking to the Issue Department or by creation of *ad hoc* treasury bills ; and in the case of contraction, reduces the assets by transferring securities, rupee or sterling or both from the Issue to the Banking Department, or by cancellation of *ad hoc* treasury bills held in the Issue Department."¹

An enormous expansion of note circulation took place during the war. These notes were issued against sterling securities accumulated due to the circumstances arising out of the war. The total notes in circulation when the war broke out on the 1st of September 1939 were Rs. 182 crores. On the 3rd of August 1945 the figure stood at Rs. 1,133 crores, an increase of about Rs. 951 crores. The increase in sterling securities during the same period was to the value of Rs. 975 crores.

The effects of the World War II on the Indian Currency system are discussed in the next chapter.

1. Functions and Working etc., op. cit, pp. 58-59.

CHAPTER XXV

INDIAN CURRENCY AND EXCHANGE (CONT.) WORLD WAR II AND AFTER

Sept. 1939 to August 1947.

1. Introduction : The main war factors that have relevance from the point of view of our currency and exchange are : (i) The necessity of preventing the exports of capital and war materials by private individuals and non-essential imports for civilian use. The need of commandeering foreign purchasing power in the interests of war necessitated restrictions on foreign trade and exchange. (ii) The general shaking of confidence in response to unsatisfactory war developments or internal political agitation, led to speculative buying, hoarding of goods and coins and rush to deposit withdrawals and conversion notes into coins. (iii) The expanding theatres of war and shipping difficulties and State restrictions resulted in contraction of private foreign trade. (iv) Purchases on behalf of His Majesty's Government and the Allies for outside war theatres led to increased export surplus for India, increased sterling balances in London and increased currency expansion in this country. (v) Stimulation of productive activity for war purposes led to increased incomes of certain classes but it also led to scarcity of civilian goods at a time when foreign imports could not fill the gap. This along with currency expansion led to soaring prices. Price control measures with respect to necessities of life became imperative. (vi) The expanding budget of the Government led to higher taxation and increased borrowings. These had their repercussions on production, currency and exchange.

2. Exchange Rate. We have seen in a previous chapter that during the decade before the outbreak of the recent war the Government found it difficult to maintain the rupee sterling rate at 1s. 6d. It was accomplished partly by contraction of currency and partly on account of the export of gold after 1931. The chief cause of the difficulty was the serious falling off in our export surplus during the period of acute agricultural depression. With the outbreak of the war our export surplus revived on account of considerable export of war materials from India purchased on behalf of His Majesty's Government. Indian exports of merchandise

to foreign countries (mainly the United Kingdom and the British Empire) increased from Rs. 163 crores in 1938-39 to Rs. 203 crores in 1939-40, an increase of about Rs. 40 crores during the first war year. The imports on the other hand were kept down by means of import restrictions from May 1940 onwards. The favourable balance of trade in merchandise was only Rs. 17.3 crores for the pre-war year 1938-39 and Rs. 48.8 crores for 1939-40, Rs. 48.9 crores for 1940-41, Rs. 79.9 crores for 1941-42 and Rs. 84.61 crores for 1942-43, Rs. 90.9 crores for 1943-44 and 26.1 crores for 1944-45. The Reserve Bank was consequently able to buy¹ sterling in large amounts and there was no difficulty in maintaining the rate at the statutory level of 1s. 6d. Some trouble, however, was felt in March 1941, when owing to continued difficulty of securing shipping space there was a scarcity of export bills and the exchange weakened, but the Reserve Bank was able to meet the situation by offering to sell Reverse Council Bills at 1s. 5-31/32d.

While the rupee remained, on the whole, firm in relation to sterling, it depreciated in relation to the dollar, yen and the continental currencies following the slump in the pound. With the pegging of sterling to the dollar at 402 the rupee-dollar exchange became steady (at about 332 per 100 dollars).

3. Exchange Control : Following Great Britain, the Government of India also undertook to control exchange. Under the Defence of India Ordinance of 1939 (Part XIV) the Government was authorized (i) to impose restrictions on purchase of foreign exchange ; (ii) to acquire foreign exchange ; (iii) to impose restrictions on purchases and export of securities and (iv) to acquire foreign securities. Accordingly the Government required that all foreign exchange transactions should be put through authorized dealers controlled by the Reserve Bank through its newly created Exchange Control Department.

1. Below are given sterling purchases by the Reserve Bank along with the annual average rate at which purchases were made :—

Year			Net purchases £ millions	Average rate of purchase	
				s.	d.
1931-32	...	...	25.46	1.5	15/16
1939-40	...	...	72.59	1.5	63/64
1940-41	...	...	57.08	1.6	
1941-42	...	...	73.31	1.6	
1942-43	...	...	91.67	1.6	
1943-44	...	...	105.31	1.6	
1944-45	...	...	91.80	1.6	

2. Special payment agreements were entered into by the Bank of England in May 1941 with the following countries : Costa Rica, Cuba, Dominican Republic, Ecuador, Guatamala, Haiti, Honduras, Mexico, Nicaragua, Padama excluding Canal Zone, Salvador and Venezuela.

For purposes of exchange control, the Empire was regarded as a single currency unit and was called the sterling area. No restrictions were put on the free transfer of funds within this area. The purchase and sale of currencies outside the sterling area were subject to rigid control. The sterling area originally included all Empire countries except Canada, Newfoundland, Hong Kong and also (then Mandated territories) Egypt and Iraq. As a result of war developments the Belgian Congo, Iceland, the Faroe Islands and the Free French Territories were added to this area. In addition through special agreements, payments between certain foreign countries and the sterling area were permitted only in sterling and transfers between the accounts of these countries and other non-Empire countries were prohibited.

No remittances were allowed to any country outside the sterling area unless the remitter filled an application form stating the purpose for which the remittance was required. Remittance might be required for (i) payment for imports; this was allowed provided the applicant produced custom entry forms as evidence that the goods had been imported into India; (ii) Petty private remittances; (iii) Travelling expenses; these were allowed up to a certain limit only; (iv) Other trade purposes (freight, profit, royalties); for these applicants had to submit certificates from Chartered Accountants or other suitable evidence of their being bona fide payments; and (v) Capital remittance; these were only permitted in exceptional circumstances and had to be referred to the Reserve Bank of India. The object of these regulations was to ensure that foreign exchange was only sold for the finance of trade and for a few other approved purposes. They were designed to prevent any flight of capital and to make speculative operations in exchange impossible.

At first banks were given considerable latitude in the sale of foreign exchange. But as the war advanced their privileges had to be curtailed. Subsequently they could not sell exchange, without prior reference to the Reserve Bank, for making payments for licensed imports and a few private remittances. A rigid control on imports was instituted. No import was allowed from outside the sterling area without a license. These licenses were issued by the Chief Controller of Imports and the Import Trade Controllers working under the Commerce Department of the Government of India. The bulk of the exports from India to countries outside the sterling bloc was financed under bank credits. For goods which were supplied by the United States under lease-lend no transactions in foreign exchange took place.

Importers in India merely paid the Government of India direct in rupees after the goods had arrived.

"The deterioration in the shipping situation after the entry of Japan into the war made the supply of shipping space an important factor in the issue of licenses under the import control system which had so far been based on availability of foreign exchange and the supply of particular currencies."¹

4. Exports Control Scheme: With the development of control it was found necessary to institute control of the proceeds of exports from India to countries outside the sterling area. The Reserve Bank, therefore, instituted an Export Control Scheme, which was at first meant for jute and rubber exported to the United States, Belgium, Holland and Switzerland only but was subsequently extended to include all commodities shipped from India to nearly all the countries in the world except those occupied by the enemy, and those adjacent to India where the absence of banking facilities did not permit trade to be financed through the medium of banks. "The objects of the export control scheme are to ensure, firstly, that the foreign exchange proceeds of exports are returned to India and not retained abroad, and secondly, that exports are financed in certain specified way so that the maximum exchange value is obtained. This system is worked through the customs and the banks by means of forms which the shipper has to complete stating the value of his shipment and his method of finance. One copy of this form is handed to the Customs who do not permit shipments to countries covered by the order without its production. The form is then forwarded to the Reserve Bank. The other copies of the form the shipper delivers to his bankers at the time of negotiation of his bills covering the export. These are also submitted to the Reserve Bank, which checks up the forms with the original received from the Customs. All shipments can thus be accounted for."²

The balances occurring to Indians (and other citizens of the Empire countries) in the United States had to be handed over to the British Government and constituted the "Empire Dollar Pool," to be utilized for purposes of war.

5. Bullion Securities and Foreign Currency Notes: In addition to ordinary commodities, control was also exercised over the export and import of bullion, securities and currency

1. Report of central Board of Directors, Reserve Bank of India, for the year ending 30th June, 1943, pp. 10-11.

notes. Export of gold could only be made under licence. Exports to the United Kingdom were only permitted provided the gold was consigned to authorized brokers in London. Licences for exports to U.S.A. were granted only provided the authorized dealers gave an undertaking that the dollar proceeds would be surrendered to the Reserve Bank of India. Imports of gold were licensed, but were freely permitted provided they did not involve the expenditure of any important currency especially dollars.

As regards securities, these could not be acquired from any person not resident in India, nor could they be exported without the permission of the Reserve Bank. For export of foreign securities licence was required which was only allowed if the foreign exchange proceeds were surrendered to the foreign agents of a bank in India.

Restrictions were also placed on the taking of jewellery and cash out of India. A specified minimum could be taken out without licence, but beyond that a licence had to be taken from the Exchange Control Department of the Reserve Bank.

Currency notes could not be imported from countries occupied by the enemy. This was to prevent the enemy disposing of their large holdings of notes captured in invaded countries. Severe restrictions were put on the purchase of Bank of England notes by India after the German occupation of most of Europe. When Japan occupied Burma similar restrictions were put on Burma notes. Provision, however, was made to encash notes in possession of *bona fide* evacuees from the occupied areas.

Exchange control was exercised on similar lines by all the Empire countries and there was complete collaboration in the working of these systems among the various members of the Empire.

6. Effects on Currency: The main effects of the war on the internal media of exchange were: (i) Rush for conversion of notes and consequent, (ii) rationing of rupees. Scarcity of coins leading to (iii) issue of one-rupee and later two-rupee notes to economise silver and to prevent hoarding. The Government also issued (iv) new eight-anna pieces and later (v) new rupee coins of smaller silver content. To reduce hoards and to prevent counterfeiting the Government (vi) withdrew Queen Victoria rupees and later Edward VII, George V and George VI standard rupees and finally (vii) the circulating media expanded enormously especially after 1941 causing inflation.

Previous to June 1940, the demand for conversion of notes into rupees was only sporadic, amounting on the average to less than a crore of rupees per week. With the collapse of France, during that month, this average increased to Rs. 4 crores per week. The demand for rupees also increased on account of increasing armament expenditure of the Government, and the greater business activity brought about by the war. But most of this demand was for hoarding purposes. The stock of rupees in the Issue Department of the Reserve Bank decreased from Rs. 75.47 crores at the beginning of the war to only Rs. 32 crores by the 5th of July 1940. At first the Government allowed withdrawals freely. But it became impossible for the mints to supply rupees at the rate required by the hoarders. On 25th June 1940, therefore, by a notification the Government made it an offence to acquire coins in excess of personal or business requirements. As the machinery necessary for scrutiny could not be improvised at a short notice the rupee coin acquired a premium over the note and there was an acute shortage of rupee coins and small change. These difficulties, however, were soon overcome by the Reserve Bank and arrangements for the supply of reasonable amounts of small coins and rupees were made.

7. Issue of new Coins : To meet the scarcity of rupees, which had created difficulties in making small payments, the Government authorized the issue of their own one-rupee notes by an Ordinance (No. IV of 1940) on 24th June, 1940. The status of these notes was exactly the same as of the rupee coins and they were not convertible into rupees unlike similar notes issued during the last war. The Reserve Bank paid them in exchange of their bank notes to satisfy the demand for rupees. As the new notes could not be manufactured immediately one-rupee notes, which had been printed in 1935 for an emergency which did not arise, were put into circulation. Later (in July 1941) new notes of a different size and design were printed and issued to the public under the signature of the Secretary to the Government of India, Finance Department. Subsequently in February 1943, two-rupee notes of the Reserve Bank were issued under Section 24 of the Reserve Bank Act.

To meet the growing demand for four-anna and eight-anna pieces the Government issued new half-rupee coins under Ordinance No. VI of 1940. To prevent the hoarding of these coins and to economise silver, the silver content of these coins was reduced from 11/12 to $\frac{1}{2}$ fine though their weight and appearance was kept the same as the old coins. In December of the same year new rupee coins of reduced fineness similar to the

eight-anna pieces were issued. They contain 90 grs. of pure silver and 90 grains of base metal and possess a security edge device, which is regarded as a complete safeguard against counterfeiting. To meet the increasing demand for coinage the Government decided to construct a new mint at Calcutta with a double minting capacity as compared with the old mint.

8. Withdrawal of Standard Coins : The withdrawal of Victoria rupees and half-rupees was under consideration even before the war. They were unpopular because many counterfeits were in existence, which could not be detected on account of the worn-out character of such coins. Now there was an added advantage of withdrawing them from the hoards. Consequently, an Ordinance was promulgated on the 11th of October 1940 which amended the Indian Coinage Act. By a notification under the amended Act it was declared that Victoria rupees and half-rupees would no longer be legal tender after March 31, 1941, but that they would continue to be accepted until September 30, 1941, at all Government Treasuries and Post Offices, and thereafter, until further notice, only at the offices of the Issue Department of the Reserve Bank at Bombay and Calcutta. By a notification dated the 9th of November 1941 King Edward VII rupees and half-rupees ceased to be legal tender after 31st May 1942. They continued to be accepted till the 30th September 1942 at Government Treasuries and Post Offices, etc., and thereafter, until further notice, they were acceptable only at the offices of the Issue Department of the Reserve Bank, Bombay, Calcutta and Madras. Further by a notification of 1st October 1941 King George V and King George VI standard silver rupees and half-rupees 11/12th fine ceased to be legal tender from 31st May 1943. They were to continue to be accepted till the 31st October, 1943 at Government Treasuries, etc.; and thereafter, until further notice, at the above-mentioned offices of the Reserve Bank. This was the culmination of the policy of the Government progressively to replace the standard silver coin 11/12th fine by the King George VI quarternary coin of $\frac{1}{4}$ fineness. "The maintenance of such a high silver content as eleven-twelfths, had, besides being expensive, exposed the rupee to unduly speculative influences ; and with the Indian price of silver nearly equal to the metallic content of the standard silver rupee, the Government saw no reason why hoarders of standard silver coin should be given an indefinite option either to return it at its full nominal value or to melt and sell it as bullion."¹

1. Reserve Bank's Report on Currency and Finance (1942-43), p. 67.

9. War-Time Absorption of Currency : The most important feature of the currency situation brought about by the war, however, was the great increase that took place in the media of circulation, especially currency notes. On the 1st of September, 1939, there were Rs. 182.13 crores worth of currency notes (issued by the Reserve Bank) in active circulation¹ in India. On the 19th of October 1945, this figure stood at Rs. 1159.85 crores. This means an increase of Rs. 977.72 crores or over 536 per cent.

The following table gives the war-time absorption² of currency including notes, rupees and small coins up to the end of the financial year 1944-45 :—

(In crores of rupees)

Period	Notes	Rupees	Small Coins	Total
Sept. 1939 to March 1940 ...	59.6	19.5	2.6	81.8
April 1940 to March 1941 ...	19.1	33.2	4.2	56.6
" 1941 " 1942 ...	152.4	7.1	5.0	164.6
" 1942 " 1943 ...	261.8	44.9	11.6	381.4
" 1943 " 1944 ...	238.9	25.6	18.4	282.9
" 1944 " 1945 ...	202.4	21.00	19.2	231.6
Total	934.3	140.5	61.3	1133.1

Thus in sixty seven months of the war the currency in circulation increased by Rs. 1136 crores. Of this increase 82 per cent. was due to the increase in the note-issue. As regard the rate of absorption of notes the record year was 1942-43, when the percentage of absorption was 69 as compared with 66 during the year 1941-42. The year 1943-44 showed a decrease to 37 per cent., and the year 1944-45 a further decrease to 23 per cent.

10. The Rise in Prices : Side by side with this expansion of currency there was an enormous rise in the general price level, as shown by the table given below :

INDEX NUMBER OF WHOLESALE PRICES IN INDIA (Week ending 19th August, 1939=100)

Years	Agricultural commodities	Raw materials	Manufactures	General index
1939-40 ...	127	119	131	126
1940-41 ...	109	121	120	115
1941-42 ...	124	147	154	137
1942-43 ...	156	166	190	171
1943-44 ...	269	185	252	237
1944-45 ...	265	206	258	244

1. Active Circulation=Total notes issued minus notes held in the Banking Department.

2. Absorption=Amount going out into active circulation minus amount returned to the Bank, which means net addition to active circulation.

In the case of certain individual commodities, no doubt, the rise of price may be attributed to scarcity of supply or to speculative influences. For instance, the acute shortage of foodstuffs and the rise in food prices could be partially due to cessation of imports of rice from Burma and exports of certain foodstuffs combined with hoarding and transport difficulties in the country. But the large general increase in prices could not be easily explained on that account. There was a close relation of this rise in prices and expansion of currency. The following quarterly indices indicate this close association :—

JULY 1939=10

(All Figures Refer to the First Quarter of Each Year)

	1940	1942	1943	1944	1945
Notes in circulation ...	132	204	356	505	613
Wholesale prices ...	125	154	258	299	301
Demand deposits ...	105	167	273	390	455

There is, however, always a time lag between the issue of notes and the rise in price unless greater speculative influences are at work. The increase in prices was less than the increase in the notes in circulation. But this could prove a source of danger. This meant that a large proportion of the country's monetary resources were lying idle in the form of increased balances with the banks as shown by the increase on demand deposits, because people could not find suitable channels of investment with the appearance of new channels of investment these balances could lead to a further rise in prices.

11. Accumulation of Sterling Assets: We have seen in a previous chapter that before the Reserve Bank can expand its note issue the assets of the Bank in the Issue Department must increase. In fact, such an increase in the assets did take place as is shown by the following figures showing the changes in the assets of the Issue Department under the various heads :

Decrease (—) or Increase (+) over the figures of
1-9-1939 on 31-8-45.

	Rs. crores	
	Nil.	
1. Gold Coin and Bullion
2. Sterling Securities	...	+974.8
3. Rupee Coins	...	— 58.4
4. Rupee Securities	...	+ 20.5
5. Total Assets	...	+936.9
Total Notes issued	...	+936.9

It is clear that most of the expansion of currency occurred against sterling securities. These securities represented investments in the form of sterling in London. This money, in other words, was lent by India to England.

How did India get these sterling resources, and why were they kept in London in this form? To understand this, it is necessary to explain the system of financing supplies purchased on behalf of His Majesty's Government in India by the Indian Government.

12. War Finance: Some money was spent by the Government of India on behalf of India for war purposes. This money was shown in the regular budget of the Government under expenditure for defence. This was partly raised by taxation and partly by loans of various kinds. Apart from this, the Government of India spent every year considerable money on behalf of His Majesty's Government and other Allied Governments for the purchase of the various kinds of war supplies. For these supplies His Majesty's Government made payment in the form of sterling in London. This sterling was partly used for the payment of Home Charges and partly it was used for repayment (or repartition) of India's sterling debt and the rest was loaned to the British Government. The British Government's I. O. U's. or sterling securities were kept in London as assets of the Reserve Bank of India. In the first instance they appeared as assets of the Banking Department, but were transferred to the Issue Department as need for rupee finance arose. Against these assets, as the law allowed, notes were issued in India. These notes were used by the Indian Government to purchase war supplies mentioned above. It was thus that currency expansion occurred in India.

But all the sterling that was invested in sterling securities did not come in the possession of the Reserve Bank in this way. Part of it was purchased by the Reserve Bank of India from those who imported goods from India and wanted to make payments in rupees to Indian exporters. Below are given details of the various sources of sterling and the way the stock of sterling was utilized:—

	Rs. crores
1. Sterling assets of the Reserve Bank, August, 1939	64
2. Sterling purchased by the Bank, September, 1939 to March, 1945	644
3. Sterling payments by His Majesty's Government	1292
Total received	2,000
1. Sterling utilized for debt repatriation ¹ up to the end of March, 1945	411
2. Other sterling commitments	226
3. Sterling holding of the Reserve Bank at the end of March, 1945	1,363
Total	2,000

1. As regards the method of sterling debt repatriation, see the appropriate section in the chapter on India's Public Debt. Here it may be noted that the accumulation of sterling resources enabled India to reduce her sterling debt from

13. Rupee Securities : Currency expansion took place not only on account of the increase in sterling securities but, as we have already seen, also on account of the increase in rupee securities. Previously under the Reserve Bank Act these securities could not be held in value more than Rs. 50 crores. But by an Ordinance of February 1941 this limit was abolished. This enabled the Government to borrow from the Reserve Bank (through the issue of notes) against its Treasury Bills or I. O. U's. Some of these rupee securities were substituted for the sterling securities held by the British creditors before the debt was repatriated. In so far as the sterling debt was paid through internal borrowing from the public, no expansion of currency took place.

14. Inflation Controversy : The enormous expansion of currency and the rise in prices in 1943 led to the controversy¹ whether this phenomenon could be regarded as inflation. One view represented by the Finance Member of the Government of India, the late Governor of the Reserve Bank and a few others, was that there was no inflation in India. The other view held by most of the Indian economists and non-official public men was that a very dangerous form of inflation had developed in India and, if left unchecked, would bring disastrous consequences to our national economy.

Those who denied the existence of inflation in India based their opinions on the following grounds; (a) that notes were being issued against sterling securities as provided by the Act, hence there could be no over-issue. (b) That as long as all the resources of the country were not fully employed, additional note-issue could not lead to inflation. (c) The rise in prices was due to scarcity of goods needed for civilian consumption due to diversion of resources for purposes of war. Therefore the real remedy was to increase the production of such goods. The rise in prices of foodstuffs was partly due to the stoppage of imports of

Rs. 469 crores in 1938-39 to Rs. 38 crores by the end of 1944-45. To this amount the English creditors were paid off. Some of this debt was transferred to Indian creditors by internal borrowing by the issue of rupee securities (rupee counterparts) to the public. Some was taken up by the Reserve Bank. Hence the increase in rupee securities with the Bank.

1. If inflation is to be defined as an expansion of the purchasing power due to borrowing from the Central Bank to meet a budgetary deficit, then inflation in this sense does not exist in India. On the other hand if inflation is to be defined as a state of affairs arising out of the failure to meet the whole of the expenditure of the Government of India and of the Allied Governments by means of loans and taxes raised in India, then inflation may be said to exist, since a certain proportion of the rupee resources required to finance the war costs, in this wider sense, has been obtained by the sale of foreign exchange to the Central institution.—Sir Theodore Gregory.

rice from Burma, but was also due to hoarding, profiteering and lack of transport facilities. The remedy was to stamp out hoarding, control prices and profits and to make transport facilities more efficient. (d) That the increase in currency was a result, not a cause, of high prices, high prices being due to scarcity of supply in relation to demand.

15. It was inflation : The real truth was that the war-time rise in prices was due to inflation. All the arguments given to prove that there was no inflation in India contained a certain amount of truth in them, and that was why confusion arose. Let us examine them.

(a) It was true that if goods could move freely into and out of India, issuing of notes against sterling securities would not have caused over-issue. Sterling securities would not have accumulated to this extent with the Reserve Bank. Goods exported from India would have been paid to a large extent by imports into India which could not come due to conditions of war and exchange control. Merely the existence of sterling securities 6,000 miles away could not prevent the rupee from depreciating in terms of goods in India when such goods did not increase as fast as the means of purchasing them.

(b) The theory that so long as the resources of a country are not fully employed, additional currency does not cause inflation is true only under the assumption that these resources can be fully employed within a reasonably short time. India's potential resources may be enormous. But the point is, could they be fully employed within a reasonably short period? It would appear that to the extent that such resources could be employed from the short-period point of view they were already fully employed. The scope for further employment was extremely limited. In industry old firms have expanded. New plant and equipment was difficult to get. In agriculture the pressure on the soil was already great. Increase in the production of one thing (food-stuffs) implied a decrease in the production of another (non-food crops). The optimum limit of employment had already been reached long ago. Additional currency thus caused inflation.

(c) Scarcity of particular goods might have led to a considerable rise in their prices. But when all prices were rising, the cause obviously was more on the side of money rather than goods. Issuing money first with the hope that supply of goods would increase was to court inflation. Goods at most increased by about 20 per cent during the period of war. This was in spite of every effort to stimulate production. Currency, on the other hand,

increased by over 530 per cent during the same period. Mere control of prices could not prevent inflation, even if price control had succeeded.

(d) The increase in currency is a cause as well as a result of rising prices. Once the process of inflation starts it feeds on itself. More currency in circulation leads to higher prices; higher prices demand more currency for making the same amount of purchases; the new currency pushes the prices still higher, and thus the spiral of inflation comes into existence. The initial drive usually comes, and in India it did come, through currency expansion.

"For all practical purposes," wrote Prof. Vakil at the time, "this operation (issue of notes against sterling received in London) is similar to the creation of artificial purchasing power by means of printing press by a Government in need, as was practised during the last war by several countries.¹ This was inflation because inflation is nothing more than "a state of affairs when the volume of currency goes on increasing without being accompanied by a corresponding increase in production."² And this was what happened in India. From the point of view of the immediate present, the existence of sterling securities in London was entirely irrelevant.

16. Evils of Inflation : Inflation is a very serious disease for any country to have. It leads to many economic and social injustices and is fraught with political dangers if left to follow its course. Its evils are many : (i) By rising prices it seriously curtails the purchasing power of the currency unit and thus brings untold hardships on people with fixed incomes. After the last war many families in Germany were ruined on account of inflation. Even if bounties and allowances are given by the employers, they rarely compensate for the whole of the rise in the cost of living. (ii) Inflation ruins creditors because they receive in real goods only a small portion of what they had lent during the pre-inflation period. (iii) Inflation encourages hoarding of commodities by consumers and also by middle men in expectation of higher prices in the future. This creates scarcity and distress if the commodities are essentials of life. The scarcity of foodstuffs prevailing in India was partly due to such hoarding. (iv) Inflation is a form of hidden taxation, but taxation of the worst kind, because it imposes higher burden on the people with lower incomes. The rich make money during the war and do not mind paying more for their purchases. The poor can hardly keep their heads above water.

(v) Due to all these evils inflation creates a genuine discontent and hostility against the Government especially, as in India, if it is not a Government of the people themselves. Such hostility adversely affects the war effort. The Russian Revolution of 1917 and the rise of the Nazis in Germany can be attributed to the social discontent created by inflation during and after the Great War (1914-18).

It is because of such evils that all modern countries, e.g., United Kingdom and U.S.A., took every pains to avoid inflation. Thus compared with July 1939, by the end 1944, while prices in India had risen by 200 per cent., in the United Kingdom they had risen only by 70 per cent. and in the United States only by 39 per cent.

17. Suggested Remedies : The root cause of inflation in India, as we have seen, was the defective system of financing the purchases made in India on behalf of His Majesty's Government and the Allies. Payments were received in London, and this sterling was converted into sterling securities to be kept in the Issue Department of the Reserve Bank. Against these securities, notes were issued in India for making payments to the Indian sellers of goods above mentioned. The most important remedy, therefore, was to change this system of war finance. Thus :—

(i) The Indian Government should not have received payments in terms of sterling in London. Payments from Britain and her Allies should have been received in either some or all of the following forms : (a) gold, (b) machinery and other capital goods, (c) by liquidation of British assets in India, (d) by raising rupee loans in India on behalf of Britain and her Allies on the security of British assets in India. As a result of all these measures there would have been no sterling securities available to form part of the assets of the Reserve Bank against which notes could be issued.

(ii) The Government of India should have provided rupees for making purchases on behalf of His Majesty's Government and the Allies only to the extent of the amount that it could raise by means of taxes and loans over and above what it required for its own expenditure. Sterling payments could be received to this extent, but this sterling should have been kept as a balance in London, if necessary, but not transferred to the assets of the Reserve Bank's Issue Department.

Apart from these, other anti-inflationary measures should have been taken with the object of transferring as much purchasing power as possible from the hands of the public to the hands of

the Government. These measures were of three kinds : (i) those relating to retrenchment and taxation, (ii) those relating to loans, and (iii) those relating to price control and of articles of consumption.¹

Such measures, to some extent, were taken by the Indian Government. It was necessary to lower the inflated salaries offered by the Government to attract people for new posts created for war purposes. Taxation was put high, but it could have been still higher especially from those whose earnings were increased by the war. The problems of war loans and price control are discussed in their proper places.

18. Repatriation of the Sterling Balances : We have seen in section 11 above that the main cause of the accumulation of sterling balances in favour of India was the peculiar method of financing British war purchases in India. This factor however was not the only one that led to this accumulation. The sources of this sterling were : (a) All dollar and non-sterling assets held by Indians compulsorily acquired and taken over to the Empire Dollar Pool. (b) Annual surpluses in dollars due to normal trade balance and dollar exchange resulting from American military expenditure in India. These were also acquired and taken over to the E. D. Pool. (c) Annual balance of India's external account. (d) Direct purchases of Indian raw materials and food by the British Government. (e) Expenditure incurred by Britain under Defence Expenditure Plan of which a considerable part was stores and supplies.¹

The following table² gives some details of acquisition and disposal of sterling :—

<i>sources</i>		<i>Rs. crores.</i>
1. Sterling assets held by the Reserve Bank at the end of September, 1939	...	64
2. Sterling purchased by the Reserve Bank, September, 1939 to March, 1941	...	644
3. Sterling payment by His Majesty's Government September, 1939 to March, 1945	...	1292
Total amount available for disposal		2000
<i>Disposal</i>		<i>Rs. crores</i>
4. Sterling amount utilized for repatriation Schemes, (September, 1939 to March, 1945)	...	411
5. Other sterling commitments (derived figures) (September, 1939 to March, 1945)	...	226
6. Sterling holdings of the Reserve Bank at the end of March 1945	...	1363

1. Eastern Economist, vol. 5. No. 13, p. 457.

2. Report on Currency and Finance, 1944-45, p. 38.

3. Sterling continued accumulating even after the War for some time specially in the Banking Department. This was due to payment being made for goods received before the War ended.

After March 1945 our sterling assets increased from Rs. 1,360 crores to about Rs. 1,560 crores by October 12, 1945. On the 15th July 1947 these balances stood at £1160 or Rs. 1546 crores. This was the amount which had to be 'repatriated'. It was a debt which Great Britain had incurred from India. Most of it was a "forced debt" and emerged because of the inflationary methods of war finance adopted and of the compulsory acquisition of India's dollar resources. British opinion, however, hesitated to regard it a debt in the ordinary sense of the word. The Indian point of view was that this sterling represented painfully accumulated savings of the Indian people and must be repaid to the last penny in the interest of reconstruction of India's economic life.

Subsequent events proved, however, that the fears of repudiation or 'scaling' down of this debt on the part of Britain were baseless.

After the Partition these balances had to be allocated between the Indian Dominion and Pakistan. An agreement regarding the release of sterling balances to the two Dominions has been recently signed. The terms of release to Pakistan are given in the latter portion of this book.

19. The Sterling Balances Agreement : The agreement relates to the following three matters :—

(a) The price to be paid for the military stores and installations taken over by the undivided Government of India on the 1st April 1947.

(b) The capitalisation of the sterling pensions ; and

(c) The utilisation of the remaining sterling balances.

(d) Outstanding matters arising out of allocation of defence expenditure between United Kingdom and India till 31st March 1947.

As regards (a) it was agreed that a sum of £100 million (Rs. 133 crores) should be paid in full and final settlement for all the stores and installations taken over on the 1st April 1947.

(b) The liability of the pensions charged to the undivided Govt. of India has been placed on the Indian Dominion. It has been decided to pay the United Kingdom Government a sum of £147½ million (Rs. 197 crores) and purchase from them a tapering annuity starting with £63 million (Rs. 8 crores) this year and gradually falling to nothing in sixty years. Pensions will be paid by the Government of India out of this annuity. As regards provincial pensions £20½ millions (Rs. 27 crores) has been paid in

return for an annuity on similar lines. This will only relate to Indian Provinces. Pakistan is separately liable to her provincial pensions under a separate agreement.

Payments for Defence Stores and Central Pensions have been settled with the concurrence of Pakistan because the foreign exchange for paying the United Kingdom on these accounts has to come from the sterling balances before they are allocated between the two Dominions.

(d) As regards the allocation of defence expenditure between the United Kingdom and the undivided Government of India, the former was liable to pay Rs. 65 crores for the year 1946-47 to the latter. Taking into account certain other liabilities still outstanding the final amount due from U. K. has been settled at £55 million (Rs. 73 crores).

(c) As regards the payment of the balance temporary agreement for six months was reached on 14th August 1947. This was extended upto 30th June 1948 with certain modifications. The new agreement extends this agreement with modifications for a period of three years up to 30th June 1951.

It is necessary here to explain that the sterling balances are held in two accounts. No. 1 Account is the main operating account To this are credited the amounts released from the accounted balances and all current earnings. The No. 2 Account contains the remainder of the accumulated balances which are available for certain classes of transactions, mainly of a capital nature. All current expenditure is incurred from the Account No. 1.

The total sterling balances at the time of the agreement amounted to £1,160 million. After allowing for payments on account of military stores pensions etc., and Pakistan share, the share of the Indian Dominion came to about Rs. 800 crores. This can be drawn upon for meeting the country's requirements of foreign exchange which are not met by current exports.

According to the agreement now arrived at during the period of three years from the 1st July 1948, the United Kingdom will release a sum of £80 million in addition to which India will carry forward the unspent balance of Account No. 1 amounting to £80 million out of the previous releases.

In other words the total foreign exchange available to the Indian Dominion during the next three years, over and above her current earnings from exports, will be £160 million or Rs. 213 crores.

To meet India's requirements of hard currency it has been agreed that in the first year a sum of £15 million (Rs. 20 crores) will be made available for conversion into any currency. The requirements for the remaining two years will be reviewed later.

20—India and the I. M. F. :—In 1943 International Monetary Plans were prepared by the United Kingdom, the United States and Canada. Out of the fusion of these plans and discussions at the Bretton-Woods Conference in the summer of 1944 an International Monetary Scheme emerged. This envisages the establishment of an International Monetary Fund and an International Bank.

The main features of the International Monetary Fund are given below :—

(i) Out of subscriptions of member countries a Monetary Fund amounting to 8·8 million dollars will be created.

(ii) A member country must pay its subscription according to the quota allotted to it : 25 per cent of this quota or 10 per cent of its holding of gold, whichever is smaller, must be paid in the form of gold, the balance being paid in the form of local currency.

(iii) The resources of the I. M. F. will be kept in the form of gold or local currencies. The latter will be kept in the Central Banks of member countries.

(iv) The purpose of the Fund is to promote exchange stability, to avoid competitive exchange depreciation and to facilitate the expansion of international trade through the multilateral convertibility of national currencies. All exchange restrictions and controls, discriminatory currency arrangements, and multiple currency practices which are not approved by the Fund will have to be finally eliminated. Some restrictions, however, are allowed during the transition period.

(v) The chief function of the Fund will be to purchase and sell currencies of member countries for one another. The condition, however, is that the Fund's holding of any member country's currency should not exceed 200 per cent of its quota.

(vi) The debtor countries will get accommodation from the Fund to the extent of 75 per cent of their quota *plus* an addition of 25 per cent each year subject to a maximum of 200 per cent of their quota. These conditions may be relaxed at the discretion of the Fund. Thus a debtor country will be saved from gold exports and consequent deflation (as happened under gold standard) through the help of the Fund.

(vii) Creditor countries whose export surplus exceeds 75 per cent of their quota will have their currencies declared scarce. Such currencies will be rationed among countries needing them. The I. M. F., however, can increase the supply of scarce currencies by borrowing or purchase of gold. If even then these currencies are not enough, debtor countries must restrict their imports from creditor countries.

(viii) Member countries will be required to fix parities of their currencies with gold. An all-round uniform change in these parities could be brought about by the consent of member countries contributing individually more than 10 per cent of the aggregate quota. Such members are U. S. A., Great Britain and Russia.

(ix) Apart from this, the member countries can alter exchange value of their currencies by 10 per cent. Another 10 per cent change can be brought about by the consent of the Fund. Change beyond this can be brought about, with the consent of the Fund, only to correct a fundamental disequilibrium.

(x) To prevent member countries from taking advantage of the Fund and *also* building up gold reserves, the Fund may require a member who has increased its gold holding at the end of the year to use one-half of such increase to purchase its own currency.

(xi) The Fund is not to interfere in the internal economy of member countries to restore equilibrium in their balance of payments.

(xii) Members can withdraw from the Fund by a simple notice in writing.

(xiii) The Fund will be managed by an Executive Board of twelve Directors on which Russia, China, U.S.A., Britain and France will get a permanent seat each. Two seats will go to the Latin American Republics, while the other five will be filled by election.

These are the main features of the scheme. It is a compromise between the previous British and American plans. It gives great freedom of action to countries and does not interfere with their internal economies. In fact it is a system of exchange stabilization funds evolved by individual countries during the depression years carried to an international plane. Though gold is no longer as important in settlement of international obligations as under gold standard, that metal still plays an important role. The

plan avoids its concentration in a few countries as happened during the inter-war period.

The I. M. F. scheme provided that the original members must declare their intention of joining it by the 31st December 1945. The Government of India gave its consent to join it on the 24th of December. When, however, the new Assembly met in the spring of 1946 it took objection to Government not consulting the Legislature in this matter. A Committee of the Assembly was appointed to report whether India should continue or withdraw. The Committee reported in favour of continuing. Later in the year the Government of India communicated the ratio of exchange in terms of gold as required by the scheme. The ratio was to be the existing ratio which came to 1s. 6d. sterling as expressed in gold. By an amendment of the Reserve Bank of India Act in the spring of 1947 the rupee sterling link was broken as we have already seen.

21. The International Bank: The Bretton-Woods Conference also proposed an International Bank for Reconstruction and Development. The object of this Bank (which was later established) is to facilitate international investment of capital with a view to (a) restoration of economics disrupted or destroyed by the war, (b) reconversion of productive facilities to peace-time needs, (c) the encouragement of the development of productive facilities and resources in less developed countries.

The Bank will render assistance not so much by direct loans, as by guaranteeing loans made by private investors.

The authorised capital of the Bank will be 10 billion dollars of which 20 per cent shall be subscribed, and 80 per cent left subject to call when required to meet the obligations of the Bank. Of the former 2 per cent is to be paid in gold or U. S. dollars, the balance of 18 per cent could be paid either in gold or dollars or in the local currency of the country concerned.

Currencies received by the Bank shall be exchanged by the currencies of other members or reloaned with the approval of the members whose currencies are involved. No condition will be imposed regarding the spending of loaned currencies in the territories of any particular member or members.

Loans will be made or guaranteed only for specific purposes and would have to be spent only on those purposes.

The Bank will be managed like the I. M. F. by a Board of 12 Executive Directors, five of whom will be permanently from the five countries with the largest quotas as in the I. M. F., two reserved for the American Republics and the rest to be elected.

Undivided India joined both the Bank and the Fund. After Partition the new State of Pakistan did not automatically become member of these institutions. Pakistan has yet to become member.

CHAPTER XXVI

BANKING AND CREDIT

1. Definition and Importance of Banking : Any institution that accepts deposits subject to withdrawal by cheques, drafts or order is a bank. India has, in addition, many individuals and firms that do not perform many of the modern recognised functions of banks but are still known as bankers. They lend money and finance the agriculture and trade of the country to a considerable extent.

Banks encourage thrift, mobilise savings and transfer funds from those who have them to those who know how to use them. They help in the transmission of money and the movement of commodities from place to place. A country's agriculture, trade and industry, in order to make progress, need crores of rupees. The Government, too, stand in need of large funds from day-to-day as well as for long periods both in peace and war. For these and all other economic activities the mediation of an organised system of banking is essential.

A study of the problems of Indian banking is highly important. Unfortunately, complete banking statistics are not available. The shroffs in the city and money-lenders in the village do not publish any accounts. Many of the non-scheduled joint-stock banks, too, which exist in large numbers and are incorporated under the Indian Companies Act of 1936, neither publish any returns nor supply them to the Reserve Bank of India. This paucity of data stands in the way of a thorough comprehension of the problem and the eradication of faults from the existing system on a scientific basis.

2. Early History of Banking in India : Banking in India is as old as her trade and commerce. The laws of Manu show that banking was understood and practised long before Christ. Chankya's *Arthashastra* (the Science of Money) mentions the presence of bankers in the times of Chandragupta Maurya.

Banking and credit received severe blows from the Muslim invasion and occupation of India ; still many old banking houses survived and performed important financial services for the Muslim princes and courtiers. The names of Jagat Seth and Oma Seth are well known in the history of the Nawabs of Bengal.

Even the East India Company made use of them to borrow money and to remit it to distant places in India.

Even today when the Western banking system has so thoroughly established itself in the country, no picture of Indian banking would be complete unless the old indigenous banker and money-lender are prominently painted in.

3. The Constituents of the Indian Banking System : The Indian money-market and banking systems are composed of the following members :—

- | | |
|---------------------------------|----------------------------------|
| (a) Indigenous bankers. | the Imperial Bank. |
| (b) Co-operative banks. | (f) Foreign exchange banks. |
| (c) Land mortgage banks. | (g) Insurance companies. |
| (d) Post-Office savings banks. | (h) The Reserve Bank of India. |
| (e) Joint-stock banks including | (i) Stock and bullion exchanges. |

Sometimes post-office savings banks and insurance companies are not included in the framework of the Indian money-market as they are supposed to perform special forms of banking business. But any institution that collects money from some and lends it to others has a right to a place in it. The Indian money-market unlike the British money-market is very loosely held together. If a village money-lender whose only business is to lend his family funds is a part of the banking machinery, so is an insurance company that collects millions from individuals and invests them in Government and other approved securities.

4. The Importance of Indigenous Bankers : The survivors of the old indigenous banking system in India are found carrying on their age-old operations in different parts of the country under different names. In Madras they are called Chettys ; in the Punjab and U.P., Sowcar, Mahajan and Khatri ; in Bombay, Shroff, Marwari and Multani, and in Bengal Seth and Baniya.

India has more than six and a half lakhs of inhabited places, out of which 4,230 have a population of 5,000 and over.¹ Of these only 140 had any banking facilities in 1916, 339 in 1926, 514 in 1936 and 736 in 1939. Most new branches are opened in the up-country distributing centres or the great ports of India which already enjoy banking facilities. Out of the 713 new branches opened during the war years, only 258 are at those places which had no bank in 1939.

No less than 87·2 per cent. of the population of India lives in rural areas.² Two of every three persons are directly dependent on agriculture which is thus the pre-eminent occupation of the

1. Census Report, Vol. I, 1941.

2. Ibid.

people in spite of the recent advance in urbanisation and industry. The supply of credit in the villages, therefore, far overshadows all other kinds of credit. Most of the towns and all the six lakhs and odd villages are without any banking facilities and have to depend either upon the co-operative society or the money-lender for the supply of their financial needs. In 1939-40 the number of village credit societies was only 101,400¹ with a total membership of 4 millions—a bare 7 per cent. of the total agricultural population². “Despite the keen competition of co-operative societies and despite the heavy losses and difficulties of the last depression, the money-lender and the indigenous banker³ still continue to be the backbone of India’s rural finance.” The number of money-lenders and indigenous bankers in some provinces of India is shown in the table below :—

TABLE I⁶

Money-lenders and indigenous bankers in India in 1931

Province	Number
Ajmer-Merwara	17
Bengal	35,000
Bombay	20,000
Punjab	55,000
C.P.	43,000
Bihar and Orissa	1,00,000
Delhi	100
N.-W.F.P.	657
All India (bank-managers, money-lenders and their employees)	3,29,500

The total amount of rural debt has been estimated by experts to be 12,00 crores of rupees.⁶ The working capital of the 101,000 odd agricultural credit societies is only Rs. 30·51 lakhs⁷. The co-operative credit movement has undoubtedly great potentialities in the future, but so far it has touched only the fringe of the rural credit problem and the money-lender is still paramount in the village.

1. Statistical statement in relation to Co-operative Movement in India, 1939-40.

2. It is estimated that 4 million members will have 16 million dependents, the total being 7% of the agricultural population.

3. Dr. L. C. Jain distinguishes between a money-lender and an indigenous banker. The former only makes loans, while the latter receives deposits and deals in *Hundis* in addition. See the “Monetary Problems of India,” p. 55.

4. Muranjan—Modern Banking in India, p. 179.

5. All-India Banking Enquiry Report.

6. Muranjan : op. cit. p. 177. Sir Manohar Lal : Presidential Address to the All-India Economic Conference, 1937.

7. Statistical Statement, op. cit.

5. Business of the Village Money-lender : In the village he finances the agriculturist for productive and unproductive purposes, buys his crop and moves it to the Mandi. He supplies the needs of the artisan in the way of raw materials and very often markets his wares too. In times of famine and scarcity, at the birth of a son, or at the marriage of a daughter, he is the refuge of the zamindar. In fact, he is truly the custodian of the peasant's honour.¹

The commercial banks are not in a position to establish direct contact with the cultivator nor can the co-operative societies fill the gap. It remains then to be considered how the indigenous bankers can be usefully employed to mediate between the money-market and the peasant. Their rates are high, but their risks are also great. The ordinary peasant is either too poor or too improvident to have any ready money in reserve which he can use in emergency. Thus the need for an agency to supply capital to the needy is urgent. The bankers, therefore, cannot and should not be eliminated altogether, but their questionable practices should be strictly curbed and their business regulated as is being done in all parts of India by legislation on money-lending and rural indebtedness. They should be made to keep their account in a prescribed manner and to throw them open to the inspection of commercial banks in their vicinity, when called upon to do so. They would thus be eligible to receive accommodation from these banks and in case of need from the Reserve Bank.² The Reserve Bank has special responsibilities for the improvement of agricultural credit. Under its help and guidance the provincial co-operative banks and the commercial banks in a province could work together for the solution of the rural finance problem.

6. Agriculture and the Reserve Bank : The Reserve Bank has an Agricultural Credit Department³ with an expert staff, the functions of which are—(a) to study all questions of agricultural credit and to be available for consultation to all banks, and (b) to co-ordinate the operations of the Bank in connection with agricultural credit and its relations with provincial co-operative banks and commercial banks engaged in this business. Thus its duties are mainly of an advisory character.

Mr. M. L. Darling, I.C.S., was asked to enquire and report on the working and state of the co-operative institutions in 1935. His report indicates the manner in which the Reserve Bank

1. Punjabi Proverb : "Shah bina bat nahin, rajah bina gat nahin."

2. Muranjan, op. cit. p. 180.

3. See also ante, chap. XI, sec. 9

could render help in agricultural finance and makes suggestions as to how the existing agencies could be of greater use. Since then the Reserve Bank has issued a Statutory Report (in 1937) supplemented by a number of bulletins. They point out the difficulty of persuading the money-lender to shed off non-banking business and to adopt modern banking methods. They also suggest the reconstruction of the whole co-operative structure in the currency. "As for money-lenders, supplanting them is not possible, regulation of their business by laws is suggested."¹

7. The Indigenous Banker in the Town : The indigenous banker's is a hereditary business carried on mainly with family funds. He, however, does receive deposits and pays a higher rate of interest for them than the bank. He engages in trade and serves as an agent to distribute goods in the country as well as to move crops to the ports. He buys *Hundis* drawn by business men, charging them a higher rate than the bank and appropriating the difference as his profit. He also finances the trader and acts as a link between the bazaar and the commercial bank by discounting *Hundis* and getting them rediscounted by the bank when he is in urgent need of funds. He lends money against any kind of security, bullion or jewellery, goods or personal confidence. He accommodates those who fight shy of the uniformed peon at the gate of a joint-stock bank and of the critical eyes of the man behind the polished counter, but at higher rates. As Sir George Schuster remarked, "It is impossible to over-estimate the part that indigenous bankers play in the whole of the banking and credit machinery of India. It would be no exaggeration to say that his part of the organization represents 90 per cent. or more than 90 per cent. of the whole."

8. The Indigenous Banker and the Reserve Bank : It is essential, therefore, that these bankers should be put into gear with the modern money market to supply credit and banking facilities to the people of India on reasonable rates.

Sir J. B. Taylor, the late Governor of the Reserve Bank, drew up a scheme to link up the indigenous bankers with the Reserve Bank direct and suggested certain conditions for their inclusion in the Bank's approved list. These conditions were circulated to the main joint stock banks as well as a number of indigenous bankers for opinion. These were considered to be too stiff by the Shroffs' Association at Bombay and other commercial organizations. Accordingly they were toned down and changed into the following :—

1. Muranjan, op. cit. p. 283.

(a) The indigenous bankers who operated with 2 lakhs of rupees as capital and were prepared to increase it to 5 lakhs of rupees within 5 years were to be put on the register of the Reserve Bank as private bankers.

(b) They were to shed off all their non-banking activities within a certain period of time and to engage in joint stock banking business, specially securing deposits.

(c) They must maintain proper accounts and have them audited periodically. They must also be open to the inspection of the Reserve Bank for determination of their financial status and regulation of their business on the right lines.

(d) Their balance-sheets must be published in the interest of their customers and periodical statements submitted to the Reserve Bank as those of other banking companies.

(e) In return they were to have the privilege of having their papers directly rediscounted with the Reserve Bank, the right to obtain advances against Government paper and remittance facilities similar to those open to the scheduled banks.

Indigenous bankers not eligible for access to the Reserve Bank under the above scheme might join together to form Discount Companies within a limited area and have their paper rediscounted with the Reserve Bank.

The replies received were generally unfavourable. The indigenous bankers felt that the privilege of rediscount of their paper with the Reserve Bank was not valuable enough for them to give up their hereditary banking activities. The Bombay Shroffs' Association were not willing to give up dealing in gold, silver and ornaments as merchants. Nor were they prepared to publish prescribed returns as they believed that would do them more harm than good.

As a consequence of the rejection of Bank's proposals further progress is at a standstill. It is possible now when the war is over that Bank's proposals may be further moderated. But it is essential that the bankers should fall in line ultimately, shed off their non-banking activities and take to formal prescribed banking methods in their own interest as well as in the interest of the advance of banking in India in the future. In 1945 there were only 4 indigenous bankers who had taken advantage of the Reserve Bank's offer and had been given remittance facilities like non-scheduled banks.

9. Co-operative and Land Mortgage Banks: Short-term and intermediate credit is supplied by co-operative societies and

unions in the villages. In spite of strenuous efforts, however, co-operation has so far been able to tackle a very small part of the credit problem as has been already discussed in the chapter on Co-operative Credit.

The problem of long-time credit is crucial so far as agriculture is concerned. Short-term credit is possible from co-operative societies, but not for long period or for comparatively large amounts. It is the function of the Land Mortgage Bank;¹ (a) to supply loans to the deserving zamindar to release him from the strangling hold of the *buniya* and to set him up on his legs again; (b) to buy more land; and (c) to enable him to introduce such costly improvements on his land as are beyond his own pocket.

The usual period for which Land Mortgage Banks extend loans varies from 10 to 30 years and the amount does not go beyond 10 to 30 times the land revenue paid by the borrower. The practice varies from province to province. The following figures give an idea of the activities of the banks.

TABLE II²
Land Mortgage Banks in India
1939-40
(Lakhs of Rupees)

		Capital				Loans made to			
No. of Banks									
243	...	41							
		Shares							
		Reserve							
		2,43							
		Debentures from Govt.							
		8							
		Debentures from public							
		9							
		Deposits							
		3,16							
		Loans							
		6,27							
		Total							
		60							
		Individuals							
		56							
		Societies and Banks							
		39							
		Loans repaid during the year.							

10. Post Office Savings Banks: These were established in 1882 with the object of encouraging the habit of thrift in the poor man. The total number of head and sub-branches of these savings banks was about 13,000. With six and a half lakhs of inhabited places in India, it meant no more than one bank for every 50 villages. Their achievement has been great as is clear from Table III below, but they do not go far enough.

1. See also ante chap. XII Sec. 14.

2. Statistical Statement relating to Co-operative Movement in India, 1939-40.

TABLE III-1
Post-Office Savings Banks
 In lakhs of rupees

Year	Deposits	Withdrawals	Amounts outstanding at end of year
1913-14 ...	10,99	9,04	23,16
1915-16 ...	7,73	7,73	15,32
1920-21 ...	18,22	17,33	21,34
1930-31 ...	24,36	25,50	37,02
1939-40 ...	40,51	45,22	78,38
1940-41 ...	25,35	45,09	59,57
1941-42 ...	21,91	30,18	52,13
1942-43 ...	22,26	22,84	52,28
1943-44 ...	35,22	24,18	64,24
1944-45 ...	43,76	28,94	80,27

The Central Banking Report remarked, "The man in the remote interior has yet to be reached. Slender savings and small men have yet to be garnered." India compares very unfavourably with foreign countries so far as deposits per head go, as the following figures will show:—

TABLE IV
Postal Savings Deposits in Some Countries

Name of country	Population ² in millions	Deposits in millions of rupees	Deposits per head in rupees*
Canada	10	63	6
U.S.A.	112	33,44	30
U.K.	44	43,80	98
Japan	60	38,32	64
India and Pakistan	389	5,23 ³	1,25

*The figures are approximate.

It has been suggested that these savings banks could be improved, (a) if the limits imposed on deposits of money be raised and other privileges granted, and (b) if the funds could be operated by cheques in Indian spoken languages.

The first suggestion has been adopted by the Government as the annual limit of net deposits for every account-holder was raised from Rs. 750 to Rs. 1,500 from February 1, 1943. From August, 1942, the Savings Banks have started accepting cheques in their transactions. Women have also been allowed to open accounts through their agents from 5th April, 1943. Since then there has been a marked improvement in the volume of small

1. Report on Currency and Finance, 1943-44.

2. Stamp—The World.

3. Report on Currency and Finance, 1942-43.

savings, the campaign launched by the Central Government and pursued by most of the provinces meeting with marked success. Certificates were sold in villages by authorized agents of Government on commission basis.

The second suggestion is not feasible as the keeping of accounts would be beyond the capacity of the present clerk on the current scale of salaries.

Effects of the War on Savings Banks.

The outbreak of the war saw heavy withdrawals from the Postal Savings Banks as well as hurried encashments of Postal Cash Certificates owing to nervousness. By 1943, things settled down and confidence was restored as Table III above shows. Deposits in these banks started increasing and reached the record figure of over Rs. 80 crores in 1944-45.

In April 1941, a new scheme of Post Office Savings Bank accounts, known as the Indian Post Office Defence Savings Bank account, was introduced. Its attraction was $2\frac{1}{2}$ per cent. rate of interest, free of income tax, i.e., 1 per cent. higher than the existing rate on ordinary Postal Savings Bank accounts. In April, 1943, the fund had Rs. 40 lakhs to its credit. Withdrawal from this account was not permissible till one year after the war was over. Later, new 12-Year National Savings Certificates were introduced with a yield on maturity of nearly $3\frac{1}{2}$ % compound interest, free of income-tax. Also from the 1st of October, 1943, the rate of interest on post-office savings bank deposits was increased from $1\frac{1}{2}$ % to 2% on balances that did not fall below Rs. 200 during the year. As a result there was an improvement of deposits and investments from January 15, 1944. Premium Bonds carrying no interest but giving half-yearly prizes were on sale to the public. They are repayable at par in 1948 and are bearer bonds.

The yield on the Post Office 5-Year Cash Certificates is $2\frac{1}{2}$ per cent free of income-tax and on 10-Year Certificates $3\frac{1}{8}$ per cent. The total volume of outstandings are as follows :—

TABLE V
Postal Cash Certificates
(In lakhs of rupees)

Year	Receipts	Repayments	Total amount outstanding at end of year
1917-18	10,00	1,12	8,88
1930-31	7,15	4,45	35,00
1935-36	13,45	13,43	65,98
1939-40	10,25	12,80	57,02
1940-41	4,89	14,93	46,98
1941-42	3,97	11,94	39,01
1942-43	3,76	8,20	34,57
1943-44	5,50	5,43	34,64
1944-45	5,48	4,31	35,81

TABLE V-A
*Post Office Defence Savings Certificates*¹
 (In lakhs of rupees)

Year	Receipts	Repayments	Total amount outstanding at end of year
1940-41	2,41	12	2,29
1941-42	2,81	75	4,35
1942-43	2,02	81	5,56
1943-44	2,43	1,02	6,97
1944-45	...	55	6,42

TABLE V-C
Post Office National Savings Certificates
 (In lakhs of rupees)

Year	Receipts	Repayment	Amounts outstanding
1943-45	8,66	1	8,65
1944-45	19,39	1	28,03

11. Joint Stock or Commercial Banks.—(i) *Early History:* The Agency Houses of Calcutta and Bombay introduced modern banking in India in the 18th century. Their banking operations were, however, entirely subordinate to their main business of trade and were adopted only to further it. Joint stock banks that followed had an unlimited liability and were managed by Europeans. They performed the important service of circulating notes in the country.

The commercial crisis of 1829-30 gave a death-blow to the Agency Houses that had been indulging freely in speculation. From 1830 to 1880 banking habits made a very slow advance. A good many of the joint-stock banks that were formed during this period closed their doors. All of them had been the result of European enterprise. Banking law was lax in those days. Some of them indulged in fantastic speculation, others were entirely bogus ventures. The principle of limited liability came to be recognised as late as 1860.

(ii) *The Presidency Banks.*—The three Presidency Banks of Bombay, Bengal and Madras, that played so important a part in the Banking fortunes of India, however, emerged during this period of stress. Before 1862 they were directly controlled by the Government and certain restrictions were imposed upon their activities. In 1862 their right of note-issue was taken away but they still worked as agents to Government and were allowed the use and management of Government balances. The restric-

1. Report on Currency and Finance, 1944-45, p. 113.

tions on their business were also relaxed, as a direct result of which the Bank of Bombay failed in 1868. A second Bank of Bombay was floated in the same year. In 1876 an Act was passed by which the old restrictions were almost wholly reimposed. The Government still banked with them, but to a limited extent. They stopped appointing official directors but were entitled to audit the Bank's accounts. Thus although they were not State Banks, they maintained this connection till 1921, when they were amalgamated into the Imperial Bank of India.

(iii) The first purely Indian joint-stock bank, the Oudh Commercial Bank, was started in 1881. It was followed by the Punjab National Bank (1894), and the People's Bank of India (1901), both of which owed their origin to Lala Har Kishen Lal, the so-called Napoleon of Punjab Finances. Till 1880, the economic conditions were static and prices were falling; hence there was no progress in banking. After 1880 banks improved to some extent, but in the next decade they gained substantially as is shown by Table VI:—

TABLE VI
Joint-Stock Banks
(In lakhs of rupees)

Year	No. of Banks	Capital & Reserve	Deposits
1870	...	2	11
1880	...	3	21
1890	...	5	51
1900	...	9	127
			807

The Swadeshi Movement of 1905 gave a great stimulus to Indian banking. The steady rise in prices, and the large addition to circulating currency after 1898 added to the momentum. There was a boom in banking and India saw a deluge of banks. Some of them were bad, others like the Bank of India, the Bank of Baroda and the Punjab and Sindh Bank have proved to be solid and reliable. They made rapid progress till 1913, when Indian banking was overtaken by a crisis. The People's Bank of India, that had invested most of its funds in industrial securities which could not be realized quickly enough at the time of need, involved many others in its ruin. Bank after bank was caught in the vortex and met with disaster till as many as 50¹ had failed.

The World War (1914-18) brought about a mild boom in banking and India saw a new crop of floatations. As the war progressed failures kept pace with it, so that between 1915 and

1. Murshjan, op. cit., p. 290. Jathar and Beri report the toll at 55. See Indian Economics, Vol. II, p. 434, while Mathur puts it at 100.—See footnote on p. 259.

1920 as many as 43 banks had gone into the insolvency court. But the post-war depression was responsible for many failures, the most important of which was the Alliance Bank of Simla, a bank of long-standing with a paid-up capital Rs. 88 lakhs and total deposits amounting to more than Rs. 16 crores. The failure was mainly due to the imprudent spreading out of Boulton Brothers, the London agents of the Bank. The disaster was so great that the Governor-General-in-Council directed the Imperial Bank to undertake the repayment of 50 per cent. of their deposits to the Alliance Bank's customers. The Imperial Bank was guaranteed against any loss in the transaction.

The world depression that set in, in 1929, inevitably brought a large number of bank failures in India in its train. Between the years 1931 and 1936, no less than 238 banks closed their doors.¹ But most of them were small fry and only 5 had a capital of one lakh and over.

The year 1938 witnessed yet another banking crisis. Luckily it was confined to South India, but it carried away with it one of the biggest banks on that side of the country, the Travancore National and Quilon. The bank failed three years after the Reserve Bank had been in existence. At the time of its failure the Reserve Bank hesitated to come to its rescue without a proper investigation of its affairs, but it was too late then. This failure proved the urgent need of finding out the kind of assets ordinarily held by Indian banks and selecting the quality eligible with the Reserve Bank.

The above history covering the brief period of 1900 to 1936 shows that Indian banking has passed through one major crisis, lived through a World War, survived through one of the longest and worst depressions in history and has just been in the throes of another World War. In order to learn lessons for the future there is an urgent need to find out the causes of previous failures.

12. Causes of Failures: (a) Lack of experienced and trained managers. During all the crisis discussed above more than

1. Muranjan, op. cit. p. 290.

Period		Number of failures	No. of failures of banks less than 8 years old
1913-14	...	50	42
1915-20	...	53	21
1921-30	...	143	87
1931-36	...	238	159

two-thirds of the failures were of banks that were less than ten years old. A large majority of the insolvent banks had a paid-up capital of less than a lakh of rupees. Even the names of some of them are untraceable.¹ Without business ability and proper training banks must fail like any other institutions. Mere noble intentions do not lead them to success.

(b) There was a big discrepancy between paid-up, authorised and subscribed capitals. It is only recently (during this war), that the Government has legislated to remove this glaring defect in banking practice in this land.

(c) Big names were used to entrap the gullible investor. Fraudulent accounts were kept. Books were falsified. Loans were given on insufficient security or on no security to directors and their friends.

(d) Speculation and the desire to declare quick and high dividends has always been a temptation which has sent many a fine bank to its doom. The Indian Specie Bank was one of the chief victims of speculation in silver.

(e) Commercial banks with short-term deposits cannot afford to lock-up their assets in industrial undertakings. A bank mainly runs on confidence and like Cæsar's wife must be above suspicion. If it does not hold liquid assets it is bound to meet with disaster in case of panic and a consequent run on it. The People's Bank twice failed due to the advance of large funds to industrial enterprises. The Tata Industrial Bank had to amalgamate with the Central Bank of India for the same reason.

(f) Misfortune is never alone the cause of bankruptcy and failure. It is always helped by negligence and incapacity, if nothing worse steps in. The Alliance Bank of Simla received a knock-out blow due to the imprudent expansion of its London agents.

(g) Ratio between cash and liabilities. The ratio of liquid assets to liabilities should be fairly high, higher in India and Pak.

FAILURES ACCORDING TO PAID-UP CAPITAL

Years		Percentage of total failures of less than 1 lakh capital	percentage of failures of less than 5 lakhs, but more than one
1913-14	...	70	15
1915-20	...	74	19
1921-30	...	78	10
1931-36	...	94.5	4.2

1. Muranjan, op. cit., p. 293.

where the public is yet largely ignorant and uneducated and, therefore, more easily swayed by baseless bazar rumours than in England. It was this low ratio of cash to liabilities that enabled a discerning economist like Lord Keynes to prophesy disaster for India banks in 1913.

13. Business of the Joint-Stock Banks : The usual business of joint-stock banks in India consists of :

(a) Receiving deposits of all kinds, fixed,—current and savings.

(b) Advancing loans against internal bills and *hundis*, approved stocks and shares, immovable property like houses and lands, and commodities like grain and piecegoods. They also allow overdrafts to approved customers to a limited extent and for short periods of time.

(c) Transmitting funds from one place to another on behalf of customers through bank-draft and letters of credit.

(d) Purchasing and selling shares on a commission basis for clients.

(e) Keeping valuable documents and jewellery in safe custody.

In fact they finance the internal trade of the country leaving foreign trade severely alone. The competition of foreign Exchange Banks with large capital and reserves does not allow them even a look-in. The margin of profits in foreign exchange business is too low and the funds needed too large for them.

Further, they have very little to do with the marketing of agricultural products as the masses in the villages are illiterate and the security they can offer is not liquid enough for this type of bank.

14. Assets and Liabilities : The usual liabilities of joint-stock banks are their capital, reserve and deposits. The capital and reserve serve as the basis of public confidence in a bank. They work as its first line of defence. The usual ratio between these and deposits is 12 to 14 per cent. in the case of scheduled banks in India. The ratio depends upon the economic condition of the country and the amount of money seeking to be deposited.

The assets of joint-stock banks consist of (1) cash ; (2) bills discounted ; (3) Government and other securities ; (4) loans and advances to individuals, firms and the money-market ; (5) fixed properties like buildings.

The ratio of cash maintained by a bank to its liabilities is a very important matter as a depleted cash position might result in disaster for it. Discounted bills and Government securities come next to cash in importance for defence against sudden and heavy public demands on the bank. Indian banks require more cash and greater liquid sources due to their greater vulnerability to rumour. British and American banks have a lower cash ratio which ranges round about 10 per cent against 16 per cent. in India. The Indian banks have learnt their lesson from the good many panics and runs they have had to face during their brief existence.

The table given below shows the position of Indian joint-stock banks, from early times up to date. It will be seen that during the war years they have been wisely keeping higher cash reserves. The average for 1944-45 of 15 per cent. is higher than for the previous year by one per cent. If, however, the cash position of these banks is compared with that of Imperial Bank, they will be found in a weaker position which should not be.

TABLE VII
Joint-Stock Banks. Class A (with capital over Rs. 5 lakhs).
(In lakhs of rupees)

Year	No. of reporting banks	Capital and Reserve	Deposits and fixed	Cash	Percentage of cash to liability i.e. d to c
	a	b	c	d	
1913	18	3.64	22.59	4.00	18
1923	26	9.73	44.43	7.37	17
1933	34	12.33	71.68	10.92	16

BANKING AND CREDIT

*Consolidated Position of Scheduled Banks
After the Creation of the Reserve Bank
(In lakhs of rupees)*

Year	Number of Scheduled Banks	Liabilities Demand	Time	Cash	Cash Balances with Reserve bank	Percentage of cash liability
1937-38	54	132.77	109.04	6.61	24.62	13.0
1939-40	59	139.65	106.03	7.08	17.43	10.0
1940-41	63	163.90	104.94	8.37	36.42	16.6
1941-42	59	211.35	107.61	9.86	36.65	14.6
1942-43	61	306.28	104.21	12.97	55.73	16.7
1943-44	75	456.63	142.78	20.57	63.63	15.0
1944-45	84	584.80	194.12	27.31	89.25	15.0
27-7-1945	86	620.52	244.07	32.49	74.96	12.3

1. They are all banks with a capital of over 5 lakhs of rupees. Report on Currency and Finance for 1943-44, p. 98.

In addition, there is a very large number of joint-stock banks in India, as many as 1,421 (in 1938) which are not on the scheduled list of the Reserve Bank. Out of these only 613 submitted returns to the Reserve Bank in 1944. Their progress is clear from the following tables :—

Non-Scheduled Banks' Position
(In lakhs of rupees)

Date and Year	No. of banks submitting Returns	Demand	Liabilities			Percentage of Cash to Liabilities,
			Time	Total	Cash	
December 1940	604	5,26	11 48	16,74	1,30	7.8
1941	601	7,06	12,47	19,53	1,64	8.4
1942	534	11,06	13,59	24,65	2,63	10.7
1943	530	17,52	17,27	34,79	4,88	14.0
1944	613	24,84	28,29	53,13	6,04	11.0

The number of non-scheduled banks submitting returns to the Reserve Bank was 613, maximum during the 5 years, but the ratio of cash to liabilities declined from 14.0 to 11.4% during the last year. Seventy-eight of these banks enjoyed concession rates of remittances by the Reserve Bank. From February, 1945, it was decided that non-scheduled banks desirous of opening accounts with the Reserve Bank might be allowed to do so at the Bank's discretion if they agreed to maintain a minimum balance of Rs. 10,000 with it. Out of 33 applications received, only nine were accepted; a few are still under consideration.

It is obvious that the banks in India need a still more consolidated position. The size of the average bank is much smaller than in other countries. Branch banking is developing; the total number of branches and pay offices of the scheduled banks increased from 1322 in 1940 to 2,141 in 1944 and 2,715 in June 1945. A welcome feature of expansion in banking is the opening of 71 new offices in 1944 at places which were not served by a scheduled bank or bank with capital and reserves above Rs. 50,000. In 1943 the number of such branches opened was slightly greater at 88. But greater progress is needed in this direction, as the more the branches, the greater the distribution of risk and the larger the area from which funds can be collected.

15. Joint Stock Banking and the War: The Indian banks have so far (1945) weathered the storm well. There were heavy runs on them in the first few weeks after the declaration of the war in 1939 and on the fall of France in 1940, but they met them with great confidence. The later grave turns in the war, specially the occupation of Burma by Japan, which brought war to the very

borders of India, did not shake their position. The sudden withdrawals due to nervousness caused by the initial successes of Japan forced a few scheduled banks in South India to approach the Reserve Bank for accommodation, but this was a temporary phase. The Reserve Bank held out a helping hand, be it said to its credit, to each one of them, which quickly restored public confidence.

A look at Table VII will show that there has been a huge increase in the total deposits of the scheduled banks from Rs. 242 crores in 1937-1938 to about Rs. 600 crores in 1943-44 and Rs. 871 crores in July, 1945. This big increase has been brought about by the huge expansion in the currency. During the six years of war no less than Rs. 950 crores of notes have been pumped into circulation.

TABLE VIII¹

<i>Notes in Circulation</i>	<i>(In crores of rupees)</i>		
September 1, 1939	182
August 1941	277
" 1942	474
" 1943	755
" 1944	922
" 1945	1132

Table VII above indicates a large expansion in the demand liabilities of the scheduled banks from Rs. 140 crores in 1939-40 to Rs. 627 crores in July, 1945. This high figure reflects a plethora of money and its relative inactivity.

Time liabilities, on the other hand, have not increased with the same consistency and steadiness. There was actually a fall of Rs. 2 crores in 1942-43 over the previous year. This decline was entirely due to nervousness created by the deteriorating position of the Allies on the War chessboard. Next year, however, the Allied victories in North African and European theatres of war restored public confidence which is clearly reflected in increasing Time deposits which went up to no less than Rs. 244 crores in July 1945 from Rs. 104 crores in 1942-43.

The bulk of their funds being payable on demand, the banks have had to maintain larger cash reserves. They found a limited outlet in the Treasury Bills of the Government of India which too were not very remunerative. They were, therefore, keeping larger reserves with the Reserve Bank than actually required by law. (See Table IX).

1. Report on Currency and Finance, 1943-44.

The war brought about a great shrinkage in the loans and advances of banks as well as in the discounting of trade bills up to 1942-43. This was due to the direct financing of war contracts by the Government and the prompt payments made by them for supply of goods. The increase in earnings of industrial enterprises reduced their demand for accommodation from banks. As foreign imports went down—both of capital and retailer's goods—less trade bills were created. The Tables below show the sharp fall in bank's advances, loans and bills discounted and their increased investment in Treasury Bills up to the year 1942-43. During 1943-44 and onwards, however, a reverse tendency set in.

The increase in the Advances of the Scheduled Banks in 1944-45 was almost threefold over 1942-43 while the increase in Bills discounted was more than fivefold in the same period, thus indicating the improvement in trade conditions and a greater demand for money for investment purposes from the market. The Banks are still maintaining Rs. 57 crores balances with the Reserve Bank indicating the lack of sufficient investment openings as late as July, 1945.

TABLE IX¹

Advances, Loans and Bills Discounted of Scheduled Banks
(In lakhs of rupees)

Year	Advances	Bills Discounted	Excess of Balances with Reserve Bank over the Statutory Minimum
1939-40	125,89	5,25	8,33
1940-41	122,13	3,84	26,13
1941-42	120,20	4,93	23,93
1942-43	95,68	2,18	38,33
1943-44	156,14	5,59	37,99
1944-45	224,42	11,16	56,90

TABLE X

Government of India Three Months' Treasury Bills

Year	Amount Tendered	Amount Sold
1938-39	129	97
1939-40	117	120
1940-41	162	101
1941-42	140	119
1942-43	527	372
1943-44	628	396
1944-45	551	229

1. Report on Currency and Finance, 1944-45, p. 123.

A few large commercial banks like the Bharat Bank and the Bank of Jaipur with big capitals were floated in 1943. North India, specially the Punjab, has been venturesome in taking advantage of the vast amount of redundant money in the country. The number of scheduled banks submitting reports to the Reserve Bank has increased from 55 at the advent of the war to 86 in June, 1945. The resources of the banks have increased enormously. They have emerged safely out of the greatest War the world has seen. The new piece of Banking legislation at present on the anvil of the Indian Assembly is meant for stricter regulation and supervision of smaller banks and for safeguarding the interests of the innocent customer. With conditions of easy money the rates of interest are kept low. The Bank Rate and the Imperial Bank *Hundi* rate have been maintained at a steady 3 per cent. The joint-stock banks have been allowing only $\frac{1}{4}$ per cent. interest on demand liabilities and $1\frac{1}{2}$ to $1\frac{3}{4}$ per cent. on funds deposited with them for a year.

When the banks' resources cannot find useful employment in advances, loans and discounted bills, they must obviously invest more funds in Government securities,—short-term ones like Treasury Bills or long-term ones like $3\frac{1}{2}$ per cent. Government Paper the minimum prices of which have been fixed to debar depreciation in their value.

16. Reform of Commercial Banking in India: Till 1936 India had no banking legislation of any kind. Banks obeyed the provisions of the Indian Company Laws like other business institutions. In 1936, the amended Indian Companies Act had one whole part (X-A) specially devoted to banks. This Act had important provisions:—

(a) It defined a banking company as one "which carries on as its *principal* business, the accepting of deposits of money on current account or otherwise, subject to withdrawal by cheques, draft or order." Such a company was allowed to carry on incidental business of a varied type. The definition lacks precision and needs redrafting.

(b) A minimum working capital of Rs. 50,000 from shares is necessary before operations can be started.

(c) Managing Agents are prohibited from managing banking companies to be floated in the future.

(d) A reserve fund is compulsory. At least 20 per cent. of the profits should be credited to the Reserve funds every year till the fund equalled the paid-up capital.

(e) A banking company must maintain a cash reserve of 1½ per cent. against its time liabilities and 5 per cent. against demand liabilities and submit monthly statements to the Registrar of Companies.

(f) A banking company is not allowed to form a subsidiary company or hold shares in it unless it is a company founded by itself for undertaking trusts and administering estates.

(g) Provision has been made for a moratorium, i.e., a temporary suspension of payments in order to save a banking company from liquidation, if it is found that it is involved in temporary difficulties only.

17. War-time Banking and Legislation: The Act of 1936 has revealed a good many defects in working. A separate Bank Act is needed to regulate banking in Pakistan. Sir James Taylor, the late Governor of the Reserve Bank, put forward in 1939 a comprehensive scheme as a basis for legislation to further this essential object.

The declaration of war in 1939 interfered with the proposed legislation and it had to be postponed. At this time, however, Indian joint-stock banking was in a sound enough position and was equal to the strain put on it. Till 1942, the banks had to experience great difficulties on account of a sharp decline of business and fall in exports due to enemy action at sea and loss of European markets. Later, there was a rising tempo of war. Business expanded as a result of India being made the Allied base for war against Japan and increases purchases on behalf of the Allies. Inflationary conditions resulted in a slow increase in advances, a rapid increase in deposits, but as the Table below shows, the greatest increase was in the total working capital of scheduled banks.

TABLE XI

		1939	1945
No. of Scheduled Banks	...	55	86
No. of Branches	...	1128	2715
Deposits { Time liabilities	...	102	220 in crores of rupees)
{ Demand	...	134	608
{ Total	...	236	828
Cash { In India	...	7	29
{ with Reserve Bank	...	25	95
{ Total	...	32	124
Advances	...	101.5	268
Bills	...	3.5	15
Investment in Government Securities	...	100	421
Notes in circulation	...	172	1078

The development of banking in India during the war as tabled above no doubt presents an impressive picture but has not been free from certain undesirable features. Some of these were checked by the action of the Reserve Bank through suitable amendments of the Indian Companies Act, e.g., the extreme divergences of ratio between authorised, subscribed and paid-up capitals; issue of different classes of shares with disproportionate voting rights and unfair terms of agreement with managing directors after the appointment of managing agents had been prohibited. The Reserve Bank felt the urgent need for comprehensive legislation to safeguard the interests of depositors and ensure proper development of banking. Accordingly a new Banking Bill was framed on the lines suggested by Sir James Taylor with improvements to fill gaps shown by war-time experience and was referred to a select committee by the Central Assembly early in 1945. The objective of the bill was to ensure the soundness of a bank not only at its start, but also in its subsequent development as well as to give power to the Reserve Bank to control any bank if and when needed. The Bill lays down :—

(1) That every company engaged in the business of accepting deposits withdrawable by cheques shall have to include the word 'bank,' 'banker' or banking in its name. Such a company will not be managed by any other company except a banking company ;

(2) That the paid-up capital shall not be less than 50% of the subscribed capital and the latter not less than 50% of the authorized capital ;

(3) That any proposed banking company shall have enough capital to work on a scale large enough to earn fair profits. Hence it shall have not less than Rs. 20 lakhs capital and reserve if it proposed to work outside the province of its headquarters. It shall have Rs. 5 lakhs of capital for every branch it opened in a place like Calcutta or Bombay, Rs. 2 lakhs in respect of each town with a population of one lakh or over and Rs. 10,000 in respect of each place of business elsewhere. The minimum paid-up capital limit is put at Rs. 1 lakh before a bank can start business. These restrictions are meant to check the mushroom growth of banks and to stop them from opening branches in big towns without adequate funds, simply to attract deposits.

In case of banks registered elsewhere than in India or the United Kingdom the same object was proposed to be achieved by the provision that such banks should keep with the Reserve Bank

in cash or approved securities the amount required under this section.

(4) That at least 75 per cent of British Indian time liabilities of foreign registered banks on the 31st of December every year should be in the form of assets in British India ;

(5) That the voting rights of shareholders should be strictly in proportion to their contribution ;

(6) That no bank should be directed by any firm of managing agents, nor should it undertake any trading business and that non-banking assets if any (acquired previously) should be disposed of within seven years ;

(7) That returns should be submitted by every scheduled bank on *prescribed* form so as to enable the Reserve Bank to learn at a glance whether the provisions of the Bill are being adhered to ;

(8) That at least 25% of the total liabilities should be kept in gold, cash or approved securities and that no loans should be made to its own directors without security or against its own shares ;

(9) That the Central Government, in its discretion, can direct the Reserve Bank to make an enquiry into the working of *any* bank at *any* time and that the result of such an enquiry may lead to the exclusion of the bank from the second schedule of the Reserve Bank or even to its winding, up ;

(10) Lastly, the bill simplifies the process of liquidation in case of the failure of a bank.

The Governor of the Reserve Bank, Sir C. Deshmukh, in his speech at the annual meeting of the Bank in June 1945 warned the banks against certain evil tendencies which had intensified themselves due to plethoric monetary conditions and which made the above referred Banking Companies Bill an urgent necessity at an early date. These evil features may be mentioned as :—

(a) Indiscriminate branch banking with a view to attract deposits at high rates of interest, resulting in the banks' temptation to assume great risk to make profits ;

(b) Tendency to acquire control over non-banking companies by the purchase of their shares regardless of their price and yield. Closely allied to this are the interlocking of interests between banks and concerns and the holding of large blocks of shares

controlled by the directors and the floatation of investment trusts for such a purpose, and, in general, the tendency to use a part of the depositors' money for the benefit of the management against the traditional canons of safety and liquidity ;

(c) The excessive manipulation practised, in a few instances, at the time of the preparation of balance-sheets which give an altogether misleading impression of the banks' financial position.

(d) Besides, "there are also indications that certain banks obtained windfall profits through speculative operations in shares or Government securities or immovable properties and then frittered them away in paying dividends instead of strengthening their reserves" To checkmate these evil tendencies the proposed Banking Bill will be eminently useful. It has, therefore, been welcomed, but it needs amendment in some directions.

(1) It is said that it will hit the smaller bank too hard. Ours are mainly the agricultural countries and need banks with a large number of branches in small towns and villages all confined to a small area. Such banks should be allowed to have a lower minimum than Rs. one lakh. The proposed restriction is more desirable for urban banks spread over a number of big towns or over a province.

(2) The Bill provides for an enquiry by the Reserve Bank at the discretion of the Government. The moment it is known that such an enquiry is on, the public will become suspicious and this may end in a run. It would, therefore, be better to provide for a routine inspection of *all* banks and powers for the Reserve Bank for a special security when needed.

(3) Foreign Banks should not be given any privileges in Pakistan unless on a reciprocal basis.

Mere legislation is not enough to protect the depositor and to develop sound and efficient banking. Mismanagement must be eschewed and sound institutions should be saved from being overwhelmed by unreasonable panics and runs. Further, our State Bank should see that the promised economic activity to meet which this expansion in banking has come is speeded up so that deflation and consequent depression do not catch up and ruin promising institutions.

17. Foreign Exchange Banks : *Their position :* There were 16 Exchange Banks in India in 1943. They are the branches of large institutions incorporated outside British India. They are not subject to the provisions of the Indian Company Law. The following table shows their growth and position in India.

TABLE XII

Exchange Banks,

Year	Number	Capital and Reserve in million £	Deposits in India in crores of Rs.	Cash balances in India in crores of Rs.	Percentage of cash to liabilities in India
1913	12	37.8	35	7	20
1920	15	90.2	84	28	33
1939	18	193.6	68	8	10.5
1940	20	128.2	85	17	20
1941	17	105.9	107	13	13
1942	17	106.7	117	12	10
1943	16	106.8	140	17	12

The table also shows that the private deposits of these banks have not grown relatively to those of other banks; on the other hand the percentage has fallen from 35 in 1916 to 29 in 1936.

Two of these banks, Thomas Cook and Sons¹ and the American Express Co. are mostly concerned with tourist traffic. Of the rest, 5 have a considerable portion of their business in India while the others are mere agencies of bigger banks, a larger portion of whose business is outside India. The names of five big Exchange Banks are Llyods Bank, the Chartered Bank of India, Australia and China., Messrs. Grindlay and Co., the Mercantile Bank of India, and the National City Bank of New York.

18. Functions of Exchange Banks : (a) The foreign exchange banks finance the foreign trade of India. It is a remunerative business—the total annual trade of India amounts to Rs. 600 crores on the average. It has been estimated by experts only 15 per cent. of this trade is financed by Indian banks, whose share consists of the movement of commodities to the port-towns from where the financing to foreign countries is arranged by the Exchange Banks.

(b) The Exchange Banks have a fair number of branches scattered all over India. They raise deposits from the Indian people and undertake the kind of business done by Indian commercial banks in financing the internal trade of India to considerable extent. The war has brought about a decline in the number of branches of the Exchange Banks. Rising to 103 in 1941, the number fell to 85 in 1944.

The Exchange banks buy Indian export bills usually maturing after 3 months. These bills are almost always Documents on Acceptance (D.A.). They are sent immediately to London and

1. Its business in Pakistan has been amalgamated with that of Messrs. Grindlay and Co.

discounted at the low prevailing rates. In order to transfer their funds back to India the banks adopt various plans such as (i) selling sterling to the Reserve Bank in London, (ii) buying rupee-paper in London and selling it in India, (iii) supplying the needs of tourists and students in England on receipt of rupees in India and (iv) importing bullion into India for sale purposes.

The bulk of India's export trade from Europe is financed by 60 days' bills known as Documents on Payment (D.P.). They are discounted in London and sent to India for collection through the Exchange banks. The peculiarity of D.A. bills is that the moment the bill is accepted by the foreign importer through the Bank, he can obtain possession of the goods, while he may make the payment at the maturity of the bill. The D.P. bills do not entitle the Indian importer to the immediate possession of the goods. He, therefore, executes a trust receipt in favour of the exchange bank, thus holding goods as a trustee of the bank till he makes the payment. He pays interest at the rate of 6 per cent. for this period. So long as the Indian import trade is not financed by D.A. bills in rupees and discounted in India, a proper discount market cannot be developed here.

19. Grievances Against the Exchange Banks : (a) Indian commercial banks seriously complain of the competition of the Exchange banks in the internal trade of the country. The latter have larger capitals and reserves and can, therefore, attract deposits at cheaper rates. (b) They are also alleged to offer greater facilities to their own nationals in India's foreign trade, thus using funds raised in India against the interest of Indians. (c) They are accused of forcing Indian exporters to insure their goods with foreign companies. This proves a great obstacle in the way of the development of this type of business by Indo-Pak Insurance Companies. (d) Indians are not allowed to rise to positions of the trust in these banks. The highest post open to them is that of a cashier. (e) As is clear from the figures in Table XI above, the amount of cash reserve maintained by these banks here is lower than it should be. It is, therefore, essential that the exchange banks should be compelled by law not to allow their cash balances here to fall below a fixed minimum percentage of their Indo-Pak deposits. Ten to thirteen per cent is ridiculously low for a country like ours "where banking is ill-established and hoarding more than a memory."¹

1. Kennes Indian Currency and Finance, p. 216.

See Tables IX and X above.

20. Lack of an Indian Exchange Bank.—It is argued that the financing of internal trade is more remunerative than external trade. Therefore, the Indian joint stock banks with the comparatively smaller funds at their disposal are naturally content with the former. A foreign trade bill locks up money for 3 months at the most. The Indian joint stock banks today either lock up large funds in Government securities or keep them in the Reserve Bank of India for want of a better outlet. Their participation in foreign exchange business could usefully employ their large spare funds.

It is also asserted that skilled personnel is not available in India to carry on foreign exchange business with success. This is not a cogent argument. 'Required staff could be secured without much delay' was remarked by the Governor of the Imperial Bank in his evidence before the Central Banking Enquiry Committee. Nor is this business too risky.

The main obstacle in the way of Indian joint stock banks taking up this business is the difficulty of opening branches and working them successfully in foreign countries. There are political and currency complications. A branch in a foreign country needs huge capital, great experience and enough prestige to attract funds. Our commercial banks are not in a position to open these branches. The Central Bank of India opened one such branch in London in 1936 under the capable leadership of Sir Sorabji Pochkhanwalla but it was absorbed by Barclay's in 1938.

It has been suggested by the Central Banking Report that the Imperial Bank of India should take to foreign exchange work but it should have 75 per cent. Indian directors on local Boards and a majority on the Central Board before it does so. It should also completely stop recruitment of non-Indian staff.

As an alternative to this scheme an all-India Exchange Bank with a capital of Rs. 3 crores was suggested. The Indian joint stock banks may subscribe the whole or major portion of it to ensure that the Bank does not compete with them in the financing of domestic trade. The Bank would undertake Government remittances and work under the supervision of the Reserve Bank of India.

In the meanwhile, Indian commercial banks might open agencies in big foreign centres on a co-operative basis.

Mr. Manu Subedar, the President of the Indian Merchants Chamber, Bombay, wants very strict restrictions on the activities

of the Exchange Banks in India. He would like to confine their operations to the port-towns and disallow them from accepting deposits from Indian nationals. It would also compel them to engage Indian personnel with the exception of a foreign manager and one assistant manager.

Such restrictions are bound to invite retaliation against Indian banks when they spread out to foreign countries as they surely in course of time. Hence the best weapon to fight against the Exchange banks is an Indian bank. The commercial banks should be able to cope with the present competition of the Exchange Banks in the domestic trade successfully with their growing resources and their better understanding of the Indian people and their problems.

21. The Imperial Bank of India : A State Bank has always had great glamour for Indian imagination. Various proposals were put forward in early times¹ for such a bank but they were not adopted. The first serious experimental effort towards this objective was made in 1921 when the three Presidency Banks with their 59 branches were amalgamated into the Imperial Bank of India. This union of rivals was due to a realization of the need of the times and fear of competition from abroad. The crisis of 1913-14 had added to the urgency of the need for a State Bank to control, stabilize and regulate banking in India.

Under this scheme the capital of the newly created bank was raised from 375 lakhs to 562 lakhs. It remained a private concern but it was meant to serve the State in some financial activities, hence its operations were restricted by law and its management controlled within limits by Government. The following table gives an idea of its growth from 1921 to 1934 when it was deprived of its central banking functions.

TABLE XIII
IMPERIAL BANK OF INDIA
(In lakhs of rupees)

Year	Paid-up capital	Reserves	Public Deposits	Private Deposits	Cash	Investment in Govt. and other approved securities.
1921	5,62	4,15	6,80	65,78	13,60	12,46
1925	5,62	4,92	5,47	77,83	17,47	17,01
1929	5,62	5,47	7,60	71,64	14,00	33,00
1934	5,62	5,35	6,72	74,27	15,60	41,55

1. See Muranjan, op. cit., p. 2., footnote.

The above table shows that the Imperial Bank's very size gave it the position of leader in the banking world. Its private deposits were huge, about 33 per cent. of the total in India. The number of its branches which had swelled to 161 in 1926 was more than one-third of all joint stock banks. It had large public deposits too, on which it paid no interest. Its business was circumscribed within the bounds of safety by law. It was, therefore, natural that it should wield vast power and influence in Indian banking, credit and commerce.

Its Organization. The Imperial Bank had a Central Board and three Local Boards at Bombay, Calcutta and Madras. The Government reserved to itself the right of appointing two Managing Governors to the Central Board. They also nominated the Controller of Currency to this Board to watch Government interests. They were further entitled to issue instructions to the Bank with respect to the safety of their balances and their financial policy. The Central Board dealt with matters of general policy while the Local Boards looked after the day-to-day business within their areas.

Business allowed to the Imperial Bank. The Bank was allowed:—

- (a) to invest its funds in certain approved securities and to advance money against them.
- (b) To advance money against accepted bills of exchange.
- (c) To draw and to discount bills of exchange for bona fide personal needs.
- (d) To borrow money in India and to receive deposits.
- (e) To open a London office to transact essential business.

Central Banking Functions. It undertook all the general banking business of the Government, that of accepting deposits and holding balances on its behalf. It managed the public debt and opened 102 more branches¹ between 1921 and 1926. It remitted funds for Government and advanced them ways-and-means loans when called on to do so. It served as a bankers' bank, as most commercial banks kept their cash balances with it. It also managed the Clearing Houses in the country thus settling cross claims of banks.

Business prohibited to the Bank. It was not allowed to make loans for more than 6 months or upon the security of immovable property or its own stock and shares. It was also debarred

1. Muranjan.—p. 92. Indians owned 67 per cent. of the Imperial Bank's deposits and received 69 per cent. of its advances in 1925.

from dealing in foreign exchange business except for the bona-fide personal needs of its clients. It could not lend money on personal security unless two independent persons or firms guaranteed the loan.

Shortcomings of the Bank. Constant complaints on the basis of unfair competition were made against the Bank. The presence of vast Government interest-free funds in its coffers was supposed to enable it to offer very low rates to the public and thus undercut other banks. Such charges were not wholly true because the Bank could attract large deposits at low rates of interest due to the high liquidity of its assets. It allowed no interest on current accounts.

It was further asserted that the Bank discriminated against Indian firms and institutions in favour of Europeans. The major portion of its work, ever-increasing in volume was, however, carried on with Indians.¹ Indianization has not been as rapid as desired while direction and management of its affairs has remained in European hands. The non-Indian agents are still in a majority and they are not sympathetic to Indian interests.

The most serious charge against the Imperial Bank is that it could not reduce the fluctuations in money rates in different places or seasons. This was due to the splitting of banking and currency operations between the Imperial Bank and the Government of India. The wide disparity of rates is indicated by the table below :—

TABLE XIV
INDIAN MONEY-RATES

Year	Bank Rate	Call money Rate		Bazar Bill Rate	
		Bombay	Calcutta	Bombay	Calcutta
1925	5-7	3	1 1/2-2 1/2	8 1/2-10	10-11
1929	5-7	1 1/2-6	2 1/2-5	5-5/16-9-1/16	10-11
1932	4-6	1-2	1-2	3-6	5-8

A commercial bank exists to earn profits. It cannot be expected to discharge central banking functions with efficiency. The commercial character of the Imperial Bank could not possibly co-exist and harmonize with its State-bank character. It earned high dividends by its commercial operations; a true Central Bank would not have been allowed to do so, nor would it have entered in competition with ordinary joint stock banks.

1. It was required to open 100 new branches, 25 per cent. being at places selected by Government.

Such operations do no not go to consolidate and regulate banking in a country.

It must, however, be said to its credit that it helped to spread banking facilities all over the country. It opened 75 branches in places where no bank had any branch before. It willingly helped some banks in difficulty, e.g., Alliance Bank of Simla, the Bengal National Bank and the Allahabad Bank. It served the important purpose of a Clearing House at all places where it had branches, thus facilitating the settlement of cross accounts of different banks. The total number of branches of the bank in 1945 was as many as 419. During the war years the number increased by 15.

The Imperial Bank of India Amendment Act of 1934:—

With the coming into existence of the Reserve Bank in 1935 the Imperial Bank lost its status of a partial State Bank. It no longer held the balances of the Government nor did it manage the public debt any more. Hence the old restrictions on its operations were removed. It could now freely deal in foreign exchange, open branches and borrow money outside India. It was also permitted to lend money against immovable property. The table below shows the Bank's position after 1935. It will be seen that the Imperial Bank has throughout been maintaining a higher rate of cash to its deposits than the other Scheduled Banks which is one of the things giving it its premier position.

TABLE XV
IMPERIAL BANK OF INDIA

In crores of rupees

Year	Deposits	Investments	Advances	Cash	% of cash to Deposits
September 1939	87.76	51.99	30.37	14.69	17
August 1942	141.02	91.21	27.15	32.34	23
August 1943	196.44	140.31	36.15	29.70	15
August 1944	229.94	137.28	57.23	45.23	20
August 1945	242.88	143.96	62.36	46.35	19

22. The Reserve Bank of India : *The defects in the Indian Money Market and the Need for a Central Banking Organisation.*—The Indian money market was a loose conglomeration of banking units without any connecting links. The money-lender and indigenous banker had nothing to do with the commercial banks. Co-operative credit was a unit entirely apart from the money market in the country. The Exchange banks in addition to having a monopoly of the financing of the foreign trade, were 'poaching' on the preserves of the joint-stock Banks. The Imperial Bank derived immense benefit from its connection with the Government but was in no sense a Bankers' Bank. It competed

with them and declared high dividends. In fact it was a case of each for himself and devil take the hindmost. There was no cohesion in the banking system.

The lack of a bill market in India made the smooth working of the credit mechanism impossible. There was a great deficiency of good bills in which the banks could invest surplus funds. Besides, the *Bazar Hundis* were not well grounded and were not uniform in character. They were rarely supported by proper documents like bills of sale and title. The Imperial Bank was not a co-ordinating but a competing unit; hence the joint-stock banks were chary of rediscounting bills with it—that would be considered a sign of weakness. A large majority of the transactions in India were concerned with agricultural produce and agricultural bills were an impossibility without sufficient warehousing facilities. The complete lack of co-ordination of the money market combined with all these other factors worked against the development of a paper bill market.

Further, currency and banking in India were entirely divorced. The Government was responsible for the former. There was no automatic expansion or contraction of currency. Our are agricultural countries. The movement of crops from up-country to the ports needs the investment of large funds in the harvest season. This created conditions of tight money not relieved by the Imperial Bank or the Government. The lack of elasticity in currency resulted in a wide disparity in the interest rates current in different parts of the year. The range of interest rates from place to place was also great. The bazar bill rates at Calcutta and Bombay diverged widely as is shown by Table XIV above.

In their capacity as currency authority the Government had to keep the foreign value of the rupee stable. Even their *bona fide* actions in this connection were looked at askance by the public and aroused criticism.

The credit side of banking was in no better case. Dr. L. C. Jain wrote in 1933, "The banking resources of the country are scattered with no mechanism for their mobilization.¹" The multiple system of reserves was not conducive to confidence and security.

The only mechanism that could be capable of remedying these defects in the credit and currency of a country was a Central Banking Agency, hence there was an urgent need for the creation of a Central Bank in India.

1. Dr. L. C. Jain—A Reserve Bank for India, p. 21.

For a long time a controversy raged in the country whether India should have a State-owned bank or a private shareholders' bank. The main essential was that the new institution should be free from the incubus of party politics as well as the machination of capitalists. It should be able to control both credit and currency efficiently. Nor should tall dividends be its main pursuit, otherwise it would command no confidence in the banking world.

After two abortive efforts in 1927 and 1928, the case for the establishment of a Central Bank was again brought to the forefront by the emphatic recommendations of the Central Banking Enquiry Committee. In 1934 a shareholders' bank was accordingly brought into existence by the Reserve Bank of India Act.

23. Constitution of the Reserve Bank of India: The Reserve Bank is a shareholders' bank with a share capital of Rs. 5 crores divided into shares of Rs. 100 each, all full paid-up. The whole of the capital is owned by private shareholders except of the nominal value of Rs. 2,20,000 allotted to the Central Government.

The shares were distributed among 5 circles: Calcutta, Bombay, Delhi, Madras and Rangoon. The nominal value of the shares allotted to the different circles was as follows :—

Calcutta,	Rs. 1,45 lakhs
Bombay,	Rs. 1,40 lakhs
Delhi,	Rs. 1,15 lakhs
Madras,	Rs. 70 lakhs
Rangoon,	Rs. 30 lakhs

No person could be allotted more than 5 shares in the beginning, nor could a company registered outside India have them. Any person not domiciled or ordinarily resident in India was not entitled to hold shares. It was later enacted (in 1940) that one person could not hold in his name or jointly with others shares in excess of a total nominal value of Rs. 20,000. Five shares give the right of one vote and the maximum number of votes possessed by a shareholder is ten.

In spite of these efforts, however, the total number of shareholders has been steadily decreasing till in June 1945 it was only 64,640, the average number of shares held by each shareholder being 10⁷.¹ The Bombay circle has been gaining share at the expense of the other four circles. As a result of the concentration of shares in fewer and fewer hands, a considerable amount of

1. Report of the Central Board of Directors of the Reserve Bank of India for 1944-45.

voting power becomes frozen, thereby reducing the democratic character of the Bank's constitution.

24. Management : The general direction of the affairs and business of the Bank is in the hands of a Central Board consisting of (a) 16 members, namely, a Governor and two Deputy Governors appointed by the Central Government on the recommendations of the Board, (b) 4 directors nominated by the Government, (c) 8 directors elected by shareholders, with each by those on the Bombay, Calcutta and Delhi registers and one each by those on Madras and Rangoon and (d) one Government official nominated by Government.

For each of the five areas there is a local Board consisting of (a) 5 members elected by the shareholders from amongst themselves and (b) 3 members nominated by the Central Board out of the list of shareholders. The nominations are meant to remove any deficiency left by the elections by giving representation to unrepresented areas and in particular to agricultural and co-operative interests in the country.

General Functions of the Reserve Bank : The Bank is authorised to transact the following business.—

(1) To accept money on deposit without interest from the Central and Provincial Governments, Indian States, banks, local bodies and any other person ;

(2) To purchase, sell and rediscount :

(a) bills of exchange and promissory notes drawn payable in India and arising out of bona fide transactions, bearing two or more good signatures, one of which must be that of a scheduled bank, and maturing within 90 days from the date of purchase or rediscount ;

(b) bills etc. drawn and payable in India, for financing seasonal agricultural operations or the marketing of crops and maturing within 9 months from the date of purchase or rediscount, and

(c) those issued or drawn for holding or trading in securities of the Government of India or Provincial Governments and maturing within 90 days.

(3) To purchase from and sell to scheduled banks sterling in amounts of not less than the value of Rs. one lakh and bills of exchange (including treasury bills) drawn in or on any place in the U.K. and maturing within 90 days and to keep balances with banks in the U.K.

(4) To make loans and advances to States, local authorities, scheduled banks and provincial co-operative banks, repayable on demand or on the expiry of a period not exceeding 90 days against trustee securities, gold or silver, eligible bills of exchange and promissory notes of a Scheduled or Provincial Co-operative Bank supported by documents of title to goods pledged to the bank for commercial operations or for marketing of crops.

(5) to make ways-and-means advances to Central and Local Governments repayable within 90 days ;

(6) to issue demand drafts payable at its own offices or agencies ;

(7) to purchase and sell Government securities of U. K. maturing within 10 years of the date of purchase ;

(8) to purchase and sell securities of the Central and Provincial Governments in India of any maturity within certain maximum limits ;

(9) to borrow money for a period not exceeding 30 days from a scheduled bank in India or a central bank in any other country ;

(10) to open accounts with or to make agency agreements with central banks in other countries, to act as their agents and to invest funds in their shares ; and

(11) to perform all the functions usually performed by a central bank in any country. These functions are discussed in detail below.

25. Central Banking Functions of the Bank : (a) In the first place, the Bank had the sole right to issue bank notes in India from 1935 and in Burma from 1937. For the issue of notes the Reserve Bank maintains a separate department called the Issue Department, the assets of which are kept distinct from those of the Banking Department. These assets consist of gold coin and bullion. Sterling securities, rupee coin and rupee securities. Not less than 40 per cent. of the total assets must consist of gold coin and bullion or sterling securities, provided that the gold is at no time less than Rs. 40 crores in value at the rate of 8'47512 grains of fine gold per rupee which amounts to Rs. 21-3-8 per tola. Any deficiency in this form of assets has to be sanctioned by the Government and a specified penalty of not less than 6 per cent. paid on it. During the War (1939-45) the Bank's holding of sterling securities went on mounting as more expenditure was incurred by the Governments of India on behalf of His Majesty's Government and other Allied Governments for

which payments were made in sterling. From Rs. 39'50 crores on 1st September, 1939, the sterling holdings of the Bank rose to Rs. 1034'33 crores on 31st August, 1945. The percentage of gold and sterling balances to total note-issue which stood at 40'44 on 1st September 1939, went up to 93'477 on 31st August, 1945. Of the gold coin and bullion not less than 85 per cent. was to be held in India.

Of the remaining 60 per cent. of the assets of the Issue Department the rupee securities shall not exceed 1/4th of the total assets or Rs. 50 crores whichever amount is greater. This proviso (sub-section (3) of section 33) has been amended by an Ordinance issued in February, 1941, so that the existing limit on the amount of rupee securities held in the Issue Department has been removed. Due to needs of war finances the Government had to seek for greater accommodation from the Reserve Bank against Treasury Bills. The rupee securities stood at over Rs. 174 crores in March, 1943, but have since fallen to Rs. 58 crores (on August 31, 1945) while the sterling securities have proportionately gone up.

(b) In the second place, the Reserve Bank is required to regulate the banking system in the country. Every joint-stock bank that has a paid-up capital and reserves of an aggregate value of not less than Rs. 5 lakhs can be included in schedule 2 of the Reserve Bank. Such a bank has to maintain with the Reserve Bank a minimum balance equal to 5 per cent. of its demand and 2 per cent. of its time liabilities (on which no interest is admissible) and also to submit a weekly return of its position in a prescribed form. In 1945 there were 86 banks in the second schedule inclusive of the Imperial Bank and 16 Exchange Banks. The latter include what are sometimes styled "the Big Five" of India, namely, the Central Bank of India, the Bank of India, the Allahabad Bank, the Bank of Baroda, and the Punjab National Bank each of which has deposits more than Rs. 5 crores and a net-work of branches all over India. The maintenance of balances with the Reserve Bank by the commercial banks has centralised reserves in the country and brought about the estimable benefit of comparative liquidity and safety.

The scheduled banks enjoy the facility of financial accommodation against approved securities. They can also rediscount with the Reserve Bank bills of Exchange and promissory notes, (i) which are drawn and payable in India, (ii) which bear two or more good signatures one of which must be that of a scheduled bank, and (iii) which have a fixed maturity not exceeding 90 days exclusive of the days of grace from the date of their purchase or

rediscount by the Bank. Bills drawn or issued for the purpose of holding or trading in specified Government securities can also be rediscounted if they, too, mature within 90 days. An exception is made in favour of sound agricultural bills, so far as the period of maturity goes, which in this case is allowed to extend up to 9 months.

The Reserve Bank controls the credit policy of these member banks and through them of the other constituents of the Indian money market by raising or lowering its bank-rate and by purchases or sales of Government securities or other bills in the open market. The latter process is known by the name of Open Market Operations.

A lower bank-rate would encourage rediscounting of bills with the Reserve Bank, thus increasing the cash with the joint-stock banks and *vice versa*. Similarly purchases of securities by the Bank in the open market would increase the cash in the money market and their sales would have the reverse effect.

(c) In the third place, the Reserve Bank was entrusted with the task of maintaining the external value of the Rupee at 1s. 6d. sterling. To do this it was obliged to sell to any person, who pays the price in rupees, sterling not less than £10,000 in amount, for immediate delivery in London at a rate not below 1s. 5-49/64d. for a rupee, and to buy sterling at a rate not higher than 1s. 6-3/16d. for a rupee. Moreover, it had to meet the Government requirements of sterling in London to do which it bought sterling from the scheduled banks by weekly tenders or at an intermediate tap rate. The Exchange Banks were enabled by this process to transfer their funds conveniently from London to India in the busy season.

The sections dealing with this function were amended in 1947. See 12 chapter XXIII.

(d) In the fourth place, the Reserve Bank has to perform the important function of carrying out the banking transactions of the Government which include the accepting and holding of moneys for the Secretary of State, the Central Government, the Provincial Governments and approved native States *free of interest*. It has also to carry out their exchange and remittance operations and to manage the public debt on their behalf.

The remittance facilities provided by the Bank are a very important feature of its operations. The Bank maintains funds at all branches of the Imperial Bank and at Government Treasuries, 1,300 in number, to provide these facilities to the banks

and public. These facilities were further extended and standardized in October 1940. Under the new scheme the concession rates of remittances were extended not only to the public and scheduled banks, but also to those non-scheduled banks and indigenous bankers who fulfil certain prescribed conditions and are included in an approved list. In 1945 there were 78 non-scheduled banks and 4 indigenous bankers on this list.

(e) In the fifth place, the Bank regulated the Clearing Houses for the scheduled banks and thus saved movements of cash from bank to bank. It managed Clearing House at Bombay, Delhi, Madras, Rangoon, Lahore, Cawnpore and Karachi. They are autonomous institutions and so far the Bank has not found it necessary to interfere with their working. The total value of cheques cleared during the war years is given below:—

Clearing House Returns. In lakhs of rupees.	
1939-40	23,50 ¹
1940-41	21,91
1941-42	27,75
1942-43	29,79
1943-44	45,79
1944-45	56,15

} Excluding Rangoon

In addition to the Clearing Houses a few more centres like Ahmedabad, Allahabad, Amritsar, Calicut, Coimbatore, Lucknow, Madura, Mangalore, Nagpur, Patna, Simla and Rawalpindi had been added.²

(f) In the sixth place, the Reserve Bank had to tender advice to the Government and banks on financial and banking matters.

We have already discussed the Agricultural Department maintained by the Bank which is constantly engaged in the study of questions of rural finance³ and which advises the Government and the Co-operative Departments when consulted. We have also spoken of the efforts of the Bank to bring the indigenous bankers within the ambit of its operations with the object of co-ordinating banking in the country but without success so far.

The duty of the inspection of banks on their application to Government to be included in Schedule 2 of the Bank Act with a view to ascertain the value of their paid-up capital and assets also devolves on the Reserve Bank.

1. Currency and Finance Report for 1944-45, p. 125.

2. Ibid, for 1943-44, p. 99.

3. Section 6 of this chapter.

(g) In the seventh place, the Reserve Bank has to manage the public debt of the Government of India and to float and pay off loans on behalf of the provincial Governments. India owed a total amount of £356.05 million (inclusive of railway, stock debentures, and Amenities) at the end of 1936-37. By the end of March, 1944, £320.28 million were cleared off at a total cost of Rs. 425.37 crores.

The borrowing programme of the Reserve Bank on behalf of the Government of India during the later years of the war was very successful. Total liabilities repatriated from 1937 to 1945 were Rs. 430 crores, while the money borrowed in India in connection with the repatriation of sterling debt through Defence Loans and Issues in lakhs of Rs. was :—

1940-41	1941-42	1942-43	1943-44
85,66	64,62	100,68	341,49

(h) Lastly, the Reserve Bank acts as agency for the collection and dissemination of financial information and statistics. It submits to the Central Government a weekly account of its Issue and banking Departments. Besides it compiles, prints and publishes monthly Statistical Tables relating to banks in India and an annual report on currency and finance.

26. Bank Rate : The Reserve Bank declares from time to time the standard rate at which it will rediscount bills of exchange or other eligible commercial paper. This rate has been 3 per cent since the inception of the bank and the war has had no effect on it. Conditions of easy money have prevailed.

Reserve Funds and Dividends.—The Reserve Bank is no dividend-hunting concern. The rate to be paid to the shareholders is limited by Section 47 of the Act. The Reserve Bank has paid only 3 1/2 per cent dividend annually except in 1942-43 when it paid 4 per cent. The maximum rate of dividend that the Bank is authorized to give to its shareholders is 6 per cent. The balance of the surplus is to be paid to the Governor-General-in-Council provided that so long as the reserve fund is less than the share capital, not less than Rs. 50 lakhs of the surplus, or the whole of the surplus, if less than that amount, is allocated to the Reserve Fund.

Relations with the Imperial Bank.—The Reserve Bank had entered into an agreement with the Imperial Bank of India, which had been approved of by the ex-Governor-General-in-Council appointing it as its sole agent for 15 years and thereafter, until terminated after 5 years' notice from either side, at all places in British India where the Imperial Bank had a branch in existence

just before the opening of the Reserve Bank. The agreement would hold good if the Imperial Bank maintained a sound financial position and the existing number of branches, in return for which it was to receive Rs. 9 lakhs a year for the first 5 years, Rs. 6 lakhs a year for the next five years and Rs. 4 lakhs a year for the last five. In addition the Imperial Bank was entitled to receive a prescribed commission on the total transactions at the rate of $1/16$ per cent for the first Rs. 250 crores and $1/32$ per cent for the remainder for 10 years when the rates would be revised.

In 1945 accordingly the commission rates of the Imperial Bank were revised. A Government communique giving the new rates was published in June of that year. It says that "the following rates shall be adopted for calculating the commission payable to the Imperial Bank of India on the turn-over of Government for the quinquennium 1st April, 1945 to 31st March, 1950.

On the first 150 crores ... at $1/16$ th of one per cent.

On the next 159 crores over 150 crores at $1/32$ nd of one per cent.

On the next 300 crores over 300 crores at $1/64$ th of the per cent.

On the remainder of the total of receipts and disbursements dealt with annually on account of Government by the Imperial Bank on behalf of the Reserve Bank of India at $1/128$ th of one per cent.

The revised rates of commission have been arrived at after expert investigation and are based on the actual cost to the Imperial Bank. The spirit of the contract is that no allowance for any profit should be made to the Imperial Bank when it will be receiving its fixed annual allotment of Rs. 4 lakhs during these five years as mentioned above.

This Agency Agreement with the Imperial Bank can be terminated if a five years' notice is given by either party in 1950.

The Imperial Bank was not permitted to open any branch in substitution for another in existence, without the previous approval of the Reserve Bank.

27. Achievements of the Reserve Bank : The policy of the Reserve Bank since its inception in 1935 has been directed on

right lines and its achievements so far have been of no mean order.

The bank rate which used to vary between 6 and 7 per cent before the creation of the Reserve Bank was brought down to 3 per cent in 1935 and has been maintained at that level to the present day.

In 1945 the Government of India succeeded in floating a loan for Rs. 20 crores to be repaid in 1950 at 3 per cent. Therefore there is no reason why our State Bank should not succeed in reducing the Bank rate to $2\frac{1}{2}$ or even 2 per cent in the near future specially when the rate of the Federal Bank in New York during the war years has been maintained at 1 per cent and that of the Bank of England at 2 per cent.

The seasonal fluctuations in the money rates have been eliminated, while the variations in rates in different business centres have also tended to disappear. The main pressure of seasonal demand when the crops have to be moved will fall on the State Bank and it must be well taken.

As discussed in detail above, the Reserve Bank has introduced very cheap and valuable remittance facilities which have been availed of by the general public, scheduled banks, Government and co-operative societies and banks widely. The Bank has achieved a remarkable measure of success in the management of the public debt. It has repatriated the whole of the sterling debt of India, funded the railway annuities and made ample provision for the payment of sterling pensions and furlough allowances in England. In addition, it has floated loans for the Central and Provincial Governments at low rates. It has also provided ways and means expenditure through Treasury Bills for the Central Government.

The Bank has kept the exchange value of the rupee stable at 1s. 6d. in spite of very trying times. It has done valuable work to improve and develop rural credit in India and maintains a special department to render expert advice to Governments regarding co-operative credit. It has further proved its usefulness by giving the Government suggestion, of inestimable value, to amend banking law in the country for the further strengthening of commercial banking.

Suggestion for Improvement.—To be of real value, the Central Bank of primarily agricultural countries like Pakistan and India, should thoroughly organise agricultural credit. The Agricultural

Department has no doubt been functioning, but its activities leave much to be desired. The relations of the Australian Commonwealth Bank and the Reserve Bank of New Zealand with the primary industries of those countries are worthy of its study and should prove inspiring examples.

The constitution of the Reserve Bank has been exploited to the limit during the war years of 1939-1945. It has been legally possible to recognise sterling securities without limit as cover for the expansion of currency. The recent position was hardly desirable when the Issue Department held Rs. 1032 crores worth of sterling securities against a total note circulation of Rs. 1132 crores.

The Reserve Bank has not yet been able to forge a link with the indigenous bankers so as to bear fruitful results nor has it provided enough credit facilities to the scheduled banks to avert crises. It has also not succeeded in creating a bill market big enough to enable banks to invest their surplus funds profitably.

In spite of these lacunae, however, it has ushered in a new era of financial stability and banking reform and has helped joint stock banking in India to weather successfully one of the severest storms in history, the war period of 1939-45. It can also be affirmed that its service potential is immense and one can look for greater achievements from it in the future India.

CHAPTER XXVII

PRICES

1. Importance and Complexity of the Price Problem:

Price study is always a very complex problem. It is much more so in India due to its huge size and the great differences in the standards of living of its people. Even the Bombay and Calcutta price index-numbers vary considerably. Only recently an up-to-date all-India Index number has been started by the Economic Adviser to the Government of India.

The study of prices is very important from many points of view. They point out the prosperity of a community. They enable a Government to assess land revenue and slide it up and down as in the Lyallpur district in Pakistan. They reflect the expansion or contraction of currency and mould Government control policy as it is today.

2. A Historical Review of Prices : *Pre-Mutiny Times.*—

Before the construction of roads and railways in India prices were ruled by custom. There were severe fluctuations from year to year and place to place. Conditions of local production controlled prices. Movements of commodities were difficult and costly. There might be plenty in one district while famine raged in an adjoining one.

3. Prices from 1860-1893: After the introduction of railways and roads the isolation of the Indian village was broken only gradually. Custom and status prevailed in the rural areas while competition and contract ruled the big town. India came in contact with the world through international trade and world factors affected prices.

(a) **1861-1867:** During these years India sold large quantities of cotton in many places of the U.S.A., which was busy fighting out a Civil War. This led to large imports of silver and a heavy coinage of rupees resulting in a *rise of prices* shown by the table below :

TABLE I
Index Number of Prices for 39 Articles in India
(Base year 1873=100)

Year	Index	Year	Index
1861	90	1865	107
1863	98	1866	115

(b) **1867-1883** : Prices fell steadily during this period except between 1877 and 1880 when famine conditions forced them up. The fall in prices was mainly due to (i) adoption of the gold standard by silver-using countries in Europe with a consequent contraction in their currency, (ii) improvement in the methods of production and (iii) cheaper freights for transporting goods.

TABLE II

Year	Index	Year	Index	Year	Index
1867	108	1873	100	1878	106
1870	102	1876	90	1880	104
		1883	89		

(c) **1883-1893** : As silver had been demonetized in Europe, its price started falling. Increased production of goods had stemmed its fall till 1883, but afterwards it depreciated in value. A heavy coinage of rupees during these years added to the fall in the value of the rupee. Prices rose.

TABLE III

Year	Index	Year	Index
1884	91	1890	100
1887	91	1893	105

The above three tables show that while the price index was 90 in 1861, it was 105 in 1893, giving an increase of 17 per cent. in prices in 22 years.

1893-1913. Rapid Rise in Prices. *The Datta Price Enquiry Committee* (1910).—The slow rise in prices in the last decennium gathered pace now. Previously prices of foodstuffs had been high in famine years but had fallen in years of good monsoons. Now they rose steadily without a fall and 'there were famine prices without a famine.' Mr. Gokhale drew the attention of the Government in the Imperial Legislative Council to these abnormal conditions and attributed the rise in prices to the heavy coinage of rupees. He pointed out on authority that while the total stock of rupees in 1898 was Rs. 130 crores, in ten years another Rs. 100 crores had been added to it. "Such a sudden inflation is bound to result in a general rise of prices," he concluded.

TABLE IV

Year	Index	Year	Index	Year	Index
1895	104	1905	110	1911	129
1897	113	1907	137	1913	137
1900	116	1910	122	1914	147

The Government, therefore, appointed Mr. K. L. Datta to make an enquiry into the causes of this abnormal rise in prices. The Committee reported in 1914 and inferred that the rise in prices was due to (a) general world conditions and (b) causes peculiar to India.

Mr. Datta compared the rise in prices in India with that in some other countries and found that the rise was higher in India than elsewhere as shown by the following table :

TABLE V

Country	Percentage Rise	Country	Percentage Rise
India	40	Italy	14
Belgium	25	Australia	13
Germany	24	France	12
U.S.A.	20	U.K.	9
Canada	19		

The rise in prices in the world was due to :—(i) Shortage in the supply of agricultural commodities with an increased demand for them. (ii) Increased supply of gold and currency. (iii) Development of banking and credit facilities. (iv) Destructive wars like the Russo-Japanese and the Boer wars.

But the higher rise in prices in India could be ascribed to certain special causes summarised below :—

(i) Decrease in the produce of foodgrains, which the Committee thought was due to untimely rains, substitution of non-food for food crops and inferior land being brought under cultivation.

(ii) An increased demand for staple commodities due to increase in population and improvement in standards.

(iii) Development in the means of transport, both railways and steamships, and a fall in freights.

(iv) Expansion of credit and banking as shown by the table below :

TABLE VI

(Base : Quinquennium 1890-94=100)
(Lakhs of Rupees)

Year	Capital	Deposits	Clear House Returns
1911	115	232	210

The Government of India did not agree with the view that there had been a shortage of food supply due to substitution of

non-food for food crops nor did they believe that the population had outrun food crops. The following table speaks for itself :

TABLE VII

	Base 1890-91 to 1894-95			1910-11	1911-12
Cultivated Area	100	108	106
Population	100	107.8	108.4
Foodgrains	100	113	109

The Government pointed out that the area irrigated by canals had doubled itself during these years and there could not be a decrease in agricultural products. They, therefore, ascribed the rise in prices to world factors and to increased credit.

As a matter of fact, before 1890, the rupee was a full value coin. India had also a free mint for silver. Hence unnecessary currency was freely converted into bullion whenever needed. In 1893 the rupee became a token coin. Its melting ceased altogether. It was also no use hoarding it. The people naturally preferred hoarding gold or silver bullion instead. In addition the Government went on coining rupees freely. The total net addition of new coinage came to Rs. 100 crores from 1900 to 1908, and this was the main cause of the rise in prices—the quantity theory of money proving itself again.

5. The World War, 1914-19: *Heavy rise in prices.* Prices rose to unprecedented heights during the war years. There was a scarcity of shipping and a sharp rise in freights. The prices of imported goods rose much higher than those of exported goods. For instance taking 1873 as the base year, we find that while the prices of exported goods doubled themselves in 1918, those of imported goods almost trebled themselves. The restriction on the imports of gold and silver was another cause. As a result prices in India could not adjust themselves with those in foreign countries while they rose much higher as will be clear from the following table.

TABLE VIII

Base Year 1913 = 100
Base Year for India 1914 = 100

Year	India	U.S.A.	Japan	U.K.	France
1914	100	98	96	100	102
1916	128	127	117	160	188
1918	178	194	196	226	339
1920	201	226	259	295	509

The rise in prices during the war may be ascribed to the following reasons :—

(a) Increase in currency. The notes in circulation in India amounted to Rs. 237 crores in 1914, Rs. 265 crores in 1916 and Rs. 362 crores in 1919. The Government having a monopoly of note-issue financed their war needs by 'artificial creation of purchasing power' and 'watering the paper currency'.¹ The increase in currency was also due to the issue of Treasury Bills and war loans on the basis of which banks gave credit to customers.

(b) Decrease in imports. Imports of manufactures could not be maintained at the pre-war level. The destruction caused by war and the switching off labour to the production of armaments made that impossible.

(c) Increase in insurance and freight rates and insecurity on the sea.

(d) Restrictions and controls over imports and exports laid by Government.

The failure of rains in 1918-1919 and 1919-1920 accentuated the rise in prices which reached their highest level in 1920.

6. Prices from 1920 to 1929 : Downward Trend.—The world boom in prices was followed by the inevitable downward trend, which was further helped by the policy of 'Deflation' adopted by all countries including India. The following table illustrates the point :—

TABLE IX

(Base Year 1913 = 100)

Year	India	U.S.A.	Japan	U.K.
1914	100	98	96	100
1920	201	226	259	295
1922	176	149	199	159
1924	173	150	207	166
1926	148	151	179	148
1928	145	146	171	140

The table shows that the prices in India, U.S.A. and U.K. moved downwards parallel to each other.

7. Prices from 1929-1939 : The Great Depression of 1929-1933.—There was a collapse in Wall Street in New York in 1929 which set the ball rolling towards a slide in prices. The monetary and non-monetary causes of the slump in trade and the fall in prices have already been discussed. India was in a more difficult position. Her currency was tied to the apron-strings of U.K.

1. Jathar and Beri : Indian Economics, Vol. II, p. 395.

at the fixed rate of 1s. 6d. to the rupee. A 1s. 4d. ratio would have given India 12½ per cent. advantage in prices and exports. In spite of a strong public opinion the Government was adamant and stuck to the 1s. 6d. ratio. The political disturbances in the country also worked against stability. India was an agricultural country and she suffered more because the prices of agricultural commodities had a greater fall than those of manufactured goods. The following comparative table makes the position clear:

TABLE X

Year	India	U.K.	U.S.A.
1914 ¹	100	100	98
1929	141	137	144
1930	116	120	130
1931	96	105	111
1932	91	103	102
1933	87	103	103
1934	92	105	113

It will be seen that in 1931 prices were below the 1914 level and continued on their downward path till 1934 when from 87 in 1937 they improved to 89.

Effect of the Depression in Prices

The collapse in prices made the position of the agriculturist in India extremely difficult. He forms the large majority of the population. If he is unhappy the whole country is unhappy. During the depression his income fell, but the land revenue and irrigation charges he had to pay were the same. Land rents also, being on a contract basis, did not fall. The interest on money borrowed by him in the past could not change. Hence he could not meet his obligations and every day his position grew worse than before. In this respect the big zamindar was no better off than his poor neighbour.

The trader found that he could not sell goods at a profit. His turnover slackened as there was no customer for his goods. This affected the manufacturer whose stock accumulated in the godowns and could not be disposed of at a profit.

The fixed salaried class alone prospered but they form a very small proportion of the total population.

Customs and excise duties, income tax and railway earnings all fell off, putting the Government in a most difficult situation. Taxes were increased all-round and cuts levied on salaries. Exports decreased and home charges could not be met. The

1. Base Year, 1913=100.

exodus of gold from the country came to the rescue of the foreign exchange and saved the credit of the Government abroad.

8. Pre-war Prices 1934-1939 : The trend of prices during these years is shown by the following table:

TABLE XI³

Base Year 1913=100

Year	Calcutta	India Bombay	U.K.	U.S.A.	Germany	Switzerland
1934	89	95	105	113	28	90
1935	91	99	106	121	102	90
1936	91	96	113	122	104	93
1937	102	106	131	129	106	111
1938	95	101	121	118	106	107
1939	108	109	124	115	107	111

It is seen from the above table that after 1934 prices consistently improved in all countries except during the Recession period in 1937-38 when prices in India declined with the setback in business in the U.S.A. and prices grew uncertain, but after the outbreak of War in September 1939, they soared up till in December the Calcutta index number reached 137 giving an average of 108 to the year.

Steeping changes in prices are always attended with great evils. They cause great social injustice, upset contracts and bring about panics and crises. The table of prices given above (Table X) shows that prices fell to a greater extent in India than in other countries. The prices of exports, mainly raw materials, fell more heavily than ~~those~~ of manufactured goods which form India's imports (See Table XII below).

TABLE XII

Indices of Indian Exports and Imports

Base Year 1873=100	(Commercial Intelligence Department)	
Year	Exports	Imports
1929	216	170
1930	177	157
1931	125	134
1932	120	139
1933	118	128

It is correct to conclude then that there was comparatively greater distress in India.

9. Prices during the war period—1939-43: After the declaration of war, prices of both primary and manufactured

1. Adapted from the Review of the Trade of India for 1940-1941.

goods soared up. This was mainly due to the speculative activities of the 'bulls' on the Exchanges. Commodities had not grown scarce all of a sudden.

Things settled down after some time. The soaring prices were on the down grade. At the end of 1940, after 15 months of war, they were actually lower than in December, 1939. The table below makes the position clear.

TABLE XIII¹

Base—August 19, 1939 = 100

Year—Month	Food and tobacco	Primary commodities	Manufactured articles	General
1939—				
August	100	100	100	100
September	111	112	116	113
December	127	136	145	138
1940—				
September	108	111	111	111
December	108	113	120	114

With the advent of 1941, prices were once again on the up-grade. The U.K. had now stepped into the Indian market for the purchase of equipment for troops. Her purchases, on the one side, increased the currency in India, and on the other, reduced the quantity of goods available and brought about the lift in prices. By the end of 1941 prices had attained a very much higher level than at the end of 1940. Though the index of food articles was much the same as in December, 1939, manufactures were distinctly higher.

TABLE XIII (Contd.)

Year—Month	Food and tobacco	Primary commodities	Manufactured articles	General
1941—				
March	108	115	131	119
June	115	126	147	130
September	126	136	167	142
December	127	137	154	141

December, 1941, saw Japan on the side of the Axis. This brought the war close to the shores of India. Hence in 1942 constant and heavy increase in the prices of all goods, food, primary and manufactured, were recorded. By the middle of 1942, they were intolerably high. Things were yet to grow worse and in 1943 prices rocketed sky-high bringing untold suffering and misery to the poor in India.

1. Index number maintained by the Economic Adviser to the Government of India.

TABLE XIII (Contd.)

Year—Month	Food and tobacco	Primary commodities	Manufactured articles	General
1942—				
March	133	141	165	146
June	160	136	167	159
September	174	163	182	167
December	181	177	222	186
1943—				
January	206	182	224	190
February	216	191	226	198
May	295	234	247	237

The Calcutta Index Number shows even a still more inordinate rise in prices and provides further proof of the heavy rise in prices :—

TABLE XIV
CALCUTTA PRICE INDEX
Base 1914=100

	June '42	Sept. '43	Dec. '42	March '43	June '43
Foodgrains	154	177	250	334	447
All commodities	182	198	238	272	319

The Index Number of commodity prices in Bombay clinches the issue.

TABLE XV
BOMBAY PRICE INDEX
Base 1914=100

	March '42	June '42	Sept. '42	Dec. '42	March '43
All-food	143	171	178	226	222
Non-food	226	249	257	288	274
General	197	222	229	266	256

The various tables given above show that in World War II prices of manufactured articles have not shot ahead of primary commodities so much as in World War I. The abnormal rise in prices of food articles in Calcutta is due to the loss of the Burman source of rice.

10. Rise in Prices in India Compared with foreign Countries : The seriousness of the situation in India will be realized if it is studied against the background of conditions in the U.S.A. and other countries involved in the war.

TABLE XVI¹

Index numbers of wholesale prices in some countries during war years.
Base 1929 = 100

Year	Calcutta	U.K.	U.S.A.	Canada	Germany
1938	68	89	82	82	77
1939	76	90	81	79	78
1940	85	120	82	87	80
1941	99	134	92	94	82
1942	131	140	104	100	84
1943	218	143	108	105	85
1944 (March)	211	144	109	107	—

It will be seen that wholesale prices rose the highest of all countries in India and the least in U.S.A. and Canada among the Allied countries. The Government controls in all foreign countries worked very efficiently and kept the prices at a low level, while in India it was only at the end of 1943 that such controls began to function and succeeded in checking the upward flight of prices in 1944.

11. Causes of the Abnormal rise in Prices : Fluctuations in prices are brought about by a large number of factors. It is impossible to single out any one of them and hold it responsible for the present rise in prices. We shall study all the causes, monetary and non-monetary, one by one :—

(a) *Inflation.*—Prof. Irving Fisher has said : “In short, the chief causes of the variations in the purchasing power of the dollar are to be found in the dollar itself.” Price movements vary with money supply. A controversy went in the country whether there was inflation in India in 1943. Until July, 1943, the Government denied the existence of inflation, while Indian economists were convinced of the contrary.²

There is no denying the fact that there was an excessive advance in prices ‘aggravated by monetary expansion’³. The table on next page gives the increase in notes in circulation in India with the rise in the price index.

1. Annual Report on Currency and Finance, 1943-44, p. 74.

2. See Manifesto by Sixteen Indian Economists on the Recent Economic Policy of the Government of India, published on 12-4-1943.

3. Goldenweiser : Inflation—Definition.

TABLE XVII¹

BASE August 1939=100.

			Notes in Circulation in Crores of Rupees	Index of Notes in Circulation	Price-Index General
August	1939	...	170	100	100
Dec.	"	...	219	129	138
June	1940	...	237	139	110
Dec.	"	...	226	133	114
June	1941	...	260	152	130
Dec.	"	...	304	178	141
June	1942	...	439	257	159
Dec.	"	...	561	329	186
June	1943	...	734	432	238
Dec.	1944	...	994	585	249

It is obvious that till March 1941, prices were in advance of the notes circulated proving thereby that the supply of money in the country was not enough and the expansion had a healthy effect. Later prices pursued notes, as the table shows.

Fortunately there was no expansion in credit to add to the currency. On the other hand, as is clear from the tables below, while the deposits with the banks went up, the percentage of advances and discounts to liabilities was very much down. The Clearing House returns are also significant in this connection. Comparing them with the demand liabilities we discover that the velocity of credit had about halved.

TABLE XVIII

Scheduled Banks
(Rs. in crores)

	Demand liabilities	Time liabilities	Percentage of advances and bills to liabilities.
1939-40	132	102	53.5
1942-43	306	104	23.8
1944-45	585	194	30.2
19th Oct. '45	658	262	28.2

TABLE XIX

Clearing House Returns
(Rs. crores)

	Clearing House Returns	Demand liabilities	Velocity
	(a)	(b)	(a ÷ b)
1938-39	1,893	124	15.5
1942-43	2,816	306	9.2
1944-45	5,279	585	9.0

1. Monthly Statistical Summary—Reserve Bank of India.

There is no doubt that a large portion of the money (notes) in India is lying idle in the banks. Silver rupees have all been hoarded. Even small coins have disappeared as minted. Velocity of money has gone down. In spite of all these factors toning down the expansion in currency, prices have gone up. This definitely proves that prices have followed note creation which has not been a consequence of any increased demand from trade and business.

The expansion in notes in India has been the direct result of purchase of materials and services made by the British Government either for itself or on behalf of Allied countries.¹ They are so preoccupied with war-production that they are not able to pay back India in commodities—hence the accumulation of vast sterling assets in London to her credit. These assets are a sort of loan to the British Government and help to cover her budget deficits and keep prices down in England. They have also enabled India to wipe away her sterling liabilities. The accumulated assets would go far to buy up British investments in India “which might lead to the almost complete elimination of the British stake in India”² if used in that direction.”

Lord Linlithgow admitted the existence of inflation in India in his valedictory speech to the Houses of Legislature. Mr. L. Nemenyi, a Special Officer with the Government of India, was entrusted with the important task of finding out what anti-inflation steps were possible to minimize the effects of continued currency expansion. The Directors of the Reserve Bank in their Report for the year 1942-43 also admitted the growth of inflationary trends in India.

It is correct to conclude in the circumstances that one of the main causes of the heavy rise in prices in India was the heavy expansion of her currency.

(b) Scarcity of Goods.

(i) *Shortage of food supply in India.*—India has not been self-sufficient in her food supply for some years. She was importing $1\frac{1}{2}$ to $2\frac{1}{2}$ million tons of rice from Burma, Malaya and Thailand.³ The occupation of these countries by Japan created a big gap in India's food supply. The next table indicates a decrease in India's agricultural production in some directions.

1. Currency Report of the Reserve Bank of India, 1941-42.

2. D. R. Gadgil and Sovani: War and Indian Economic Policy, 1943, p. 51.

3. Indian Trade Journal: Summary of Crop Forecasts.

TABLE XX¹*Estimated Yield of Some Indian Crops.*

(In lakhs of Tons).

			Average of 1936-37 to 1938-39	1942-43
Rice	...	...	2,62	2,12
Wheat	...	...	1,02	1,02
Groundnut	...	...	31	37
Sesamum	...	...	4	5
Sugarcane	...	...	51	57
Cotton	...	...	57	44
Jute	...	...	84	90

In spite of this net gap in India's average food supply she had to export foodgrains to Iraq, the Bahreins, Ceylon and South Africa² thus enlarging the deficit in food in Bengal and Bombay, and creating alarming conditions there.

(ii) *Shortage of imported manufactured goods.*—There was a great fall in the value of India's seaborne trade in the third full fiscal year of the war. This fall was greater in respect of her imports. The following comparative indices for the quantum and price-level of imports in the last three years are interesting.

TABLE XXI³*Quantum of Imports*

(Base : 1938-39 = 100)

		1940-41	1941-42	1942-43
Quantum of imports	...	81.3	74.2	37.6
Decrease per cent.	...	-20.3	-8.3	-49.3
Price-level	...	126.7	153.4	192.9

The scarcity of imported commodities which fell as low as 37.6 compared with 1938-39 encouraged the inflationary tendency.

(iii) *Shortage of goods manufactured in India.*—A very large portion of production in India was diverted to war purposes. Steel, paper, textiles, leather goods, rubber and tea were being purchased in huge quantities either by the U.K.C.C.⁴ or through other agencies for British, American and Allied needs, leaving but little for the use of Indians. As idea of the huge foreign purchases can be had from the sterling assets to the credit of India.

1. Communique by Government.

2. Annual Report for Currency and Finance, 1942-43.

3. Ibid.

4. The United Kingdom Commercial Corporation.

	Crores of Rupees
1. Sterling assets held by the Reserve Bank, August 1939	64
2. Sterling purchased by the Reserve Bank to end of March 1945	644
3. Sterling payments made by His Majesty's Government	1292
Total Rs.	2,000

By the end of March 1945, Rs. 637 crores had been utilized for the various repatriation schemes and meeting other sterling commitments leaving Rs. 1,363 crores to the credit of India. The excess of Allied purchases in India over the Allies' sales to her, accounts for India's heavy sterling assets. The greater the off-take of Indo-Pak goods, the more the notes circulated, the less the goods left for current consumption, and the higher the level of prices shall we have.

(c) *Speculation and Hoarding*.—Speculation plays an important part in the fluctuations of prices even in normal times. It is supposed to help in the adjustment of prices ordinarily, but in war times there is a glut of it. It thus keeps back essential commodities from the consumer in the hope of further rise in prices. Mr. L. Nimenyi rightly calls the speculator the hoarder and the gambler, "public enemy number one."¹ Whether the hoarding is done by provincial governments, *baniyas*, banks or zamindars, the action is equally criminal and amounts to bloodsucking of innocent people. Says Mr. Nimenyi, "What about these cold-blooded gamblers who openly pride themselves to have cornered markets successfully and boast to have made crores out of nothing?"² Speculation on margin was greatly responsible for the rise in prices in India.

(d) In a period of war, the psychology of the man in the street changes. Not only the speculator and the primary grower stimulate the increase in prices, but the ordinary consumer too, if he is not a mere day-to-day purchaser of necessities, lays in stocks as far as he can afford them and innocently gives a further upward push to prices and this is what happened in India in 1943.

(e) *Transport difficulties and maldistribution of goods*.—The movement of army personnel and equipment made tremendous demands on railways. The carriage of coal, previously largely done by sea, laid an added strain on them. The reduced supply

1. L. Nimenyi: War and Prices, p. 43.

2. Ibid., p. 43.

of petrol, rubber tyres and motor lorries severely handicapped road traffic. It was, therefore, not possible to convey essential commodities from surplus to deficit areas. In addition, full co-operation was not given by different provinces and the Central Government had yet to gain experience of thorough co-ordination. As a result hoarding, profiteering and speculation ruled in India.¹

(f) *Failure of Government Controls*.—All warring nations—totalitarian and democratic—put a 'Blanket Control' on prices.² The object was to make prices insensitive to additional currency needed for war finance. War loans were supposed to absorb the redundant money.

It was not desirable to restrict agricultural prices in India in the early days of the war. The Indian peasant had suffered severely from depressed prices after 1929 and he was to be allowed to recoup losses. Power of action, if needed, was provided by Defence of India Rules.³ It was in the last quarter of 1941 that the rise in prices caused any concern. The Government fixed wholesale prices of wheat in the *mandis* in the Punjab and also appointed a Wheat Commissioner in December, 1941. Prices of cloth and yarn also shot up. In 1942, three Price Control Conferences were held, but extensions of control to all commodities was not thought of. Due to the lack of strict physical control over the commodity a black market developed and wheat and other essential necessities went into hiding. Wheat had to be decontrolled in 1942.⁴ Sugar, kerosene and petrol were also controlled and they developed high prices in the black markets. In the year 1943 the Government controlled cloth and yarn, and started a scheme of sale of 'Standard Cloth' to the poor all over India at fixed prices.

The Central Government did not have a brilliant success in their control policy in the early stages in 1943 mainly because their methods were haphazard and unco-ordinated in that they

1. Speech in the Central Assembly by Sir Azizul Haq, the Food Member, August 1943.

2. The U.K. introduced full price control in July 1941, Canada in November 1941, and the U.S.A. in April 1942. Blanket control signifies the fixation of maximum prices and taking steps to smother the rise, if any, in the future.

3. Second Price Control Conference, January 1940.

4. This is the usual argument advanced against control. It must be remembered that the failure of Government in controlling price was due to the fact that their action was not systematic. The commodity of wheat should have been appropriated and rationed at the fixed price.

fixed price but did not control the supply of the commodity nor did they have recourse to rationing of essential commodities.

12. Effects of the rise in Prices:—Rising prices do not have the same effect on all persons. The smaller the income and the larger the family, the greater is the hardship. People with bigger incomes have to sacrifice only luxuries and comforts while the poor have to part with necessities. In India the majority of people being poor, the suffering was accordingly greater. The Cost of Living Indices for working classes in some parts of India given below gives an idea of the higher cost of living.

TABLE XXII
All-India Working Class Cost of Living Indices

Month		Bombay Base 1933-34	Cawnpore Base Aug. 1939	Lahore Base 1931-35	Madras Base 1935-36
June, 1941	...	116	114	109	111
Dec. "	...	123	151	143	123
June, 1942	...	145	175	162	131
Dec. "	...	179	224	252	161
March, 1943	...	198	246	254	173

Inequalities in income are greatly aggravated by the rise in prices. The poor have to carry a heavier burden. Wages do rise ultimately, but not as high as prices and there is always a time lag between the two.

The small farmer gains no benefit from higher prices of agricultural produce if he has nothing to put on the market. If he has a little surplus he sells it within a short period of the reaping of the harvest at low prices while the profit is reaped by the middleman who can stock goods for better prices. He is happier in only so far as his dues in the way of interest, land revenue and money rents are fixed. If he has to buy seeds, cattle, tools and cloth, he has to pay more than before and is a loser from higher prices.

The big landlord with a large surplus to sell benefits the most.¹ His needs are simple and expenses small if he lives in the country, while his receipts are greatly enhanced. In the Punjab, which is a surplus province, the big zamindar was greatly benefited by the higher prices. If he was prudent he invested his surplus income in Government loans to face the rainy days which

1. The number of such zamindars is no doubt small. In the Punjab they are about 3.7 per cent. of the landowners but they own 25.7 per cent. of the cultivated land at a rough estimate."—Calvert. This is why the big zamindar in the Punjab, voicing his opinion in the Legislative Council, was averse to control over wheat in his province.

were coming to him sure as death after the war was over. It would be very reasonable to tax the excess profits of the non-cultivating zamindar in the future.

The industrialist, the speculator, the trader, the contractor and the business man, all generally profit enormously from a rise in prices. They suffer only if the Government successfully controls their operations and taxes their gains.

13. Remedies. The Government of India at last realized the seriousness of the situation. They took a wide range of remedial action, as the year 1943 advanced, both on the side of reducing the money supply in the country and of increasing goods and distributing them better. The various steps may thus be epitomised :—

(i) No remedy could curb prices effectively until further expansion of currency was stopped. This was possible only if the U.K. finances her purchases in India in a different way, *i.e.*, either by direct borrowing here or by accelerating exports of goods or bullion to India. The Government took a step in the right direction in that the additional notes put in circulation after June, 1943, were at a slower speed than before. For instance during the first six months of the year 1943, the total increase in notes had been no less than Rs. 173 crores, an average of about a crore a day but it was much less later on.

(ii) The second remedy is to reduce the current money in circulation *i.e.*, to deflate. This is always a painful business, but it can be achieved in the following ways :—

Taxation.—Taxation was already greatly increased, but more had to be done. The Indian economists in their manifesto suggested, 'Taxation, in our opinion, should be raised to the highest practicable pitch, adjusted to shoulders that can bear it.

The arrears of the Excess Profits Tax amounted to Rs. 100 crores in May 1943. An ordinance was passed to realize them. Sales of income-tax certificates in advance of the payment of the tax further helped matters.

Possibilities of other likely taxes like Death Duties, taxes on high land-incomes and on sales of real property to tap rich pockets might have been investigated. A comparative study of income-tax rates in the U.K. and Australia reveals that higher incomes could stand more taxes in Pakistan too.

(b) **Compulsory Saving Schemes.**—Such schemes could be initiated to compel the zamindar who is better off, to save more.

The Madras and U.P. Governments moved in the matter. The former decided to appoint canvassers in each district to induce people to buy Defence Bonds and Certificates and thus withdraw about Rs. 10 crores from circulation. The latter issued instructions that every zamindar should invest in Defence Loans a sum equal to one-half of the land revenue. Dividends above 6 per cent. as well as all monthly salaries above Rs. 500 net could have been compulsorily invested in War Bonds and Loans.

(c) Grants of dearness allowances and higher wages only help inflation and further raise prices. Instead, employers including Government, should have retrenched in every direction and opened depots for sale of essential commodities to their employees. Rationing should have been adopted in all large towns in India.

(d) *Loans.* Government efforts at borrowing in India did not meet with sufficient success. This was due to lack of confidence in Government and to the presence of more attractive avenues of investment from the point of view of returns. Confidence was largely restored due to Allied successes. But until other forms of investment were made less paying, Government loans could not be heavily subscribed to. That does not mean that the rates of interest should be raised—cheap money is the correct policy.

In fact, all possible measures to put a stop to high profits, wages, dividends and bonuses should have been put in train.

(iii) **Check on Speculation.**—Hedge contracts in cotton were banned. Dealings in futures in wheat and other primary commodities on Produce Exchanges were also prohibited. Forward dealings on margin basis on the bullion market were restrained by a ban on forward dealings in gold and silver. All possible measures were adopted to put trade on a cash basis to control the speculative element in prices.

A Capital Issues Control Order was passed to prevent the growth of mushroom companies. As time went on, gaps discovered were filled and Government regulations strictly enforced.

(iv) **Price Controls.**—Partial control is worse than no control. It results in black markets by driving the commodity controlled underground. The Government fixed the price of wheat in the Punjab in 1942 without controlling its supply and failed. What was needed for success was "a blanket control of all prices,"¹ i.e., fixing a ceiling to prices as well acquiring physical

1. Manifesto by Indian Economists.

control over commodities. Only then could the redundant purchasing power in the country be tied up. This was not an easy job in a vast country like India, specially when every province pulled its own way. The problem of food supply in India should have been treated as one, single problem. A comprehensive policy of co-ordination from the Centre was the only way to solve it. Co-operation from Provincial Governments, producers and consumers was essential for success. Experience already gained from the control and distribution of sugar, tea, etc., helped the Government later in a successful solution of the urgent problem of food.

(v) **Transport** :—The main problem in India was not that of deficit in food only, but also its proper distribution. A Quick and cheap transport of commodities equalizes prices. Steady and equable rates all over the country discourage hoarding for higher prices. All possible efforts, therefore, were made to grant priorities to movements of food. It was remembered that discontent at the home front interferes with the conduct of war and should be somehow remedied at once.

(vi) **Increased Production** :—Mr. G. D. Birla, an experienced business magnate, was of the opinion that prices could be brought down with an increased production of commodities. The supply of agricultural products is comparatively inelastic, while that of manufactured goods is limited by the supply of machinery and tools. An increase in commodity supply cannot keep pace with expending money. Hence, while making all possible efforts to increase the production of essential commodities, the monetary side should not have been neglected.

To increase the growth of food crops in India, imports of fertilizers from the U.S.A. and American experts to train Indian cultivators in scientific methods of farming and animal husbandry were suggested by Sir P. M. Kharagat and Dr. Ackroyd, the Indian representatives at United Nations Food Conference in America. Suitable Pakistanis might also be deputed to study foreign methods in actual practice.

Tube wells dug at Government cost in the U.P. and the Punjab would add to the area under cultivation. In addition, the area under food and non-food crops needed to be planned and controlled. Mere propaganda campaigns like the "Grow More Food," "Use Less Cloth", "Travel When You Must" either achieve nothing or overshoot the mark. What was needed was a thorough centralized plan, carefully supervised and strictly regulated.

14. Prices, 1943-1945 : The efforts of national Governments in independent countries like the U.K., U.S.A., Canada etc. held down prices and the cost of living by subsidies, price controls and rationing; the Government of India made no efforts whatsoever in the beginning to check prices—in fact they did not think it fit to do so. Later when conditions of inflation had established themselves, and the Government were compelled to recognise them as such they put in efforts to control prices. By that time the food resources of Burma had been lost to India. The food situation worsened and Bengal was struck down by a famine “which stands out as a great calamity even in an age too familiar with human suffering and death on a tragic scale.”¹ Famine on a catastrophic scale had indeed faded from memory and was regarded by many (in India) as a thing of the past. In 1943 an enemy generally thought to have been finally vanquished reappeared in full strength and its victims thronged in their thousands the streets of the greatest city in India, Calcutta.”² Hundreds of thousands died of the accompanying epidemics of malaria, smallpox and cholera. But “only one section of the community suffered from starvation—the poorer classes in the rural areas.”² As the prices rose higher in 1942 and 1943 the poor who had scanty reserves found themselves unable to purchase foodgrains.

Gradually the long series of remedies and control measures as detailed in section 13 were adopted by the Government of India to check the steep rise in prices, to regulate distribution and to reduce purchasing power by attracting idle money into Government loans. At long last the measures took effect and prices were checked in mid-flight and then tended to stabilise themselves and in some cases even to fall as is evident from the price-index maintained by the Economic Adviser to the Government of India and quoted below :—

TABLE XXIII
Index No. of wholesale prices.
Base—Week ended August 19, 1939 = 100.

Year	Agricultural commodities.	Raw materials.	Primary commodities.	Manufactured articles.	General index.
1939-40	127.5	118.8	124.2	131.5	125.6
1940-41	108.6	121.5	113.4	119.8	114.8
1941-42	124.2	146.9	132.5	154.5	137.0
1942-43	166.2	165.9	166.0	190.4	171.0
1943-44	268.4	185.0	232.5	251.7	236.5
1944-45	265.4	206.0	240.5	258.3	244.2
September, 19, 44	265	203	239	259	243
December, 44	274	210	247	257	249
March, 45	274	209	246	254	248
June, 45	256	209	237	241	237

1. Woodhead Famine Inquiry Commission Report on Bengal, Vol. I,

The measures put into effect by the Government to achieve this comparative stability of prices after 1942-43 may be rapidly summed up as speeding up and collection of taxes, collection of the Excess Profits Tax (E. P. T.) on a quarterly instead of a yearly basis, and sale of gold by the Reserve Bank of India on behalf of some of the Allied countries. The Cotton Cloth and Yarn Control Order, the Hoarding and Profiteering Prevention Ordinance, the Loan programme of the Central and Provincial Governments and the Small Savings campaign in rural India also worked in the same direction. Local manufactures were encouraged, import licences were granted on a more liberal scale and more goods were released for civilian consumption. Food-grains were imported into Bengal from Australia and from surplus provinces like the Punjab on a priority basis and reserves built. Rationing of food, cloth, sugar etc. was introduced in the big cities and towns of India. In fact everything that could possibly be done to control prices and distribute goods rationally was done from 1943 onwards but after the harm was done in Bengal.

At last in the closing months of 1943 the corner was turned and rapid flight of prices was checked. The All-India working class cost of living indices also show the same tendency in the table :—

TABLE XXIV

Base. August 1939 = 100

Month		Bombay.	Cawnpore.	Nagpur.	Lahore.
September	43	233	353	345	293
December	43	235	314	280	307
March	44	215	294	272	292
June	44	225	315	259	286
September	44	228	331	263	268
December	44	225	297	254	271
March	45	214	302	247	303
June	45	224	302	257	291

If, however, we compare the prices in India with the prices in foreign countries in the sterling group we are struck with the

great disparities. The table below is self-evident :—

TABLE XXVI¹

Quarterly Indices of International prices.
Deposits and note circulation.
July 1939 = 100

			Note Circulation	Deposits	Wholesale Prices
India					
III	1939	...	102	101	105
	1942	...	258	207	185
III	1943	...	437	335	342
I	1944	...	505	390	299
IV	1944	...	567	458	299
I	1945	...	613	455	301
U.K.					
III	1939	...	103	101	102
	1942	...	159	173	162
III	1943	...	191	199	166
I	1944	...	212	212	168
IV	1944	...	234	237	170
I	1945	...	240	237	170
Canada					
III	1939	...	110	104	103
	1942	...	337	193	132
III	1943	...	468	235	138
I	1944	...	517	256	141
IV	1944	...	600	279	140
South Africa					
III	1939	...	103	99	98
	1942	...	173	189	140
III	1943	...	238	247	153
I	1944	...	257	259	158
IV	1944	...	292	293	156
Australia					
III	1939	...	103	100	97
	1942	...	229	172	131
III	1943	...	325	220	139
I	1944	...	377	265	137
IV	1944	...	445	288	...
U.S.A.					
III	1939	...	102	103	102
	1942	...	217	152	131
III	1943	...	328	190	137
I	1944	...	382	189	138
IV	1944	...	472	212	139

Note. I, III and IV represent quarters of the year.

The table shows that India was the worst sufferer. The main cause of the high prices in India was the huge purchases made by the Allied Powers. This resulted in unprecedented

1. Report on Currency and Finance for 1944-45, p. 8.

inflation in India and a colossal amount of sterling assets in England. The millions in India went hungry and naked to supply the war front and got in return nothing but promises of future payment in the shape of sterling securities. The table shows huge increases in note circulation and deposits in all other countries too but the rise in prices has been strictly kept down. The maximum rise in prices is but 70% in England while rise in India is no less than 200% in 6 years. Now that the war is over it is very possible that the control methods adopted in other countries to keep down prices will have to be given up and prices will tend to go up there, while in India some artificial factors tending to keep up prices will disappear and prices fall down. "But despite these automatic adjustments caused by the disappearance of artificial factors engendered by war-time conditions, there will still be an unduly wide disparity in prices in India and abroad. It is this disparity which would tend to occasion far-reaching consequences on Indian foreign trade and the general economy of the country unless the flow of the trade were regulated in a scientific manner."¹

CHAPTER XVIII

PUBLIC FINANCE

1. Importance of Public Finance : The nature of Indian financial system affects to a very large extent the various aspects of Indian economic life. Conditions of trade, industry and agriculture, in so far as they depend on the support and guidance of the State, must needs be influenced by the financial structure of the country. If the people are illiterate, it is only because the State cannot spare the amount of money which will be sufficient to remove illiteracy within a reasonably short period. If the roads are bad, hospitals ill-equipped and inadequate in number, if there are slums, if the mortality rate is high and if the roads are poor and insufficient, it is all due to the fact that sufficient money is not forthcoming to accomplish these very desirable objects. The system of public finance, therefore, has a bearing on economic life which cannot possibly be over-estimated.

Besides, public finance in modern times has assumed a new importance. It does not merely deal with the ways in which the State raises revenue and the directions in which it spends it. It has, on the other hand, a purpose behind it. It is used as an instrument to even out the uneven distribution of wealth in the community. The object of imposing taxes is not merely to raise so much money but to raise from certain sections of the community, generally the more prosperous ones; and the public expenditure is so designed as to benefit the poor. These ulterior motives have imparted to the study of public finance a new interest and a new importance.

Study of public finance in Pakistan is, therefore, of very great importance. Not only will it help us intelligently to appreciate the various aspects of our Economics, it will also enable us to devise ways and means to promote general well-being of our people.

2. Some Factors that Govern Indo-Pak Public Finance : We have just said that economic conditions of a country are governed by the system of public finance obtaining there. But the reverse of it is equally true. The economic, social and political factors of a country, too, largely control and condition the financial system that prevails there. It is very much true in the

case of India. The sources of Indo-Pak public revenues as well as the items of public expenditure are the outcome of our peculiar economic, social and political conditions.

The following are the chief factors that govern public finance in India and Pakistan :—

(i) **Predominantly Rural Character : Isolation and Self-Sufficiency of the Village.** As the villagers generally consume what is produced in their vicinity, it necessarily restricts the scope of internal excises only to a few articles, such as salt, sugar, matches, kerosene oil and alcoholic liquors, for which the villager depends on outside supply. In other countries, tobacco is a very important source; but here the villagers grow it for their own consumption. The scattered and isolated character of our villages requires more expenditure if an efficient and adequate system of public health, communications and transportation is to be maintained.

(ii) **Dependence on Agriculture :** More than 71 per cent. of the people depend on agriculture. When a large mass of the people pursue one occupation, they will naturally loom large in the system of taxation. This explains why every agriculturist contributes to Indo-Pak public revenues whereas most of the non-agriculturists go scot-free. The exigencies of State finances make the taxation of agriculture a necessity.

This exclusive reliance on agriculture affects public finance in other ways. Agriculture depends on rain which is not always timely, adequate or evenly distributed. More than four-fifths of our total cultivated area depends on uncertain rainfall. Uncertain character of the Indian monsoons is a serious and disturbing factor in budgetary calculations. That is why Indian budget has been described as a "*gamble in the monsoons*", and as the Indian Statutory Commission remarked, "its arrival continues to be a subject of deep concern, not only to the cultivator and administrator, but to the Finance Member." Failure of rains causes land revenue to shrink through remission and suspensions, and necessitates expenditure on famine relief and *taccavi* loans. This is the effect on the provincial finance. But the finances of the Central Government also do not escape the injury. The diminished purchasing power must affect imports, general trade activity and earnings of railways. Hence customs, income-tax and railway earnings all have a tendency to shrink. Predominance of agriculture explains why income-tax in Pakistan does not occupy as important a position in the tax system as it does in

other industrial countries. With us land revenue is more important whereas it is of minor importance elsewhere.

(iii) **Poverty** : The poverty of Indo-Pak masses explains the low taxable capacity and the low yield of our taxes. It limits the scope of further taxation. Our public expenditure on public health, education and other beneficent activities, or "nation-building" activities, as they are usually called, is extremely low. This is due to the poverty of the tax-payers and the extremely limited resources of the State.

(iv) **Inequalities in the Wealth and Taxation** : There are great disparities in the distribution of wealth ; and there are as grave inequalities in the distribution of taxation. Permanent Settlement of Bengal, for example, was responsible for some of these inequalities and it tied down the hands of the Finance Minister.

(v) **Traditions of Centralized Administration** : India has long traditions of centralized rule and Indians have always looked up to Government to do so many things for them. There is, therefore, in India an urgent need for expansion and increase of public expenditure. Further, as the centralization led to the decay of the autonomous village panchayats, local finance was relegated to the background. In India, as compared with other advanced countries, local finance occupied an insignificant position and it was entirely at the mercy of financial support from the Provincial Governments. Total income in 1927-28 of all the rural boards of British India, taken together, amounted to less than £4 millions as compared with £27 million collected in the same year in the rural areas of England and Wales from a population not much more than a thirtieth of that of British India. Local rates of all kinds, rural or urban, produced in 1927-28 in British India were about £12½ million, which is only a little more than the income from rates in that year of the London County Council alone.¹

(vi) **Political Status** : The level of military expenditure, the scale of salaries and the nature of public debt are outcome of our constitutional position.

Thus the system of public finance here is determined by our predominantly rural character, isolated villages, dependence on agriculture with precarious rainfall, poverty and the low standard of living of the masses, inequalities of wealth distribution, traditions of centralized administration and, above all, our constitutional position.

1. See Indian Statutory Commission Report, 1940, Vol. I, p. 336.

3. History of Financial Decentralization: For the proper understanding of the Indian system of public finance, it will be necessary to trace the history of financial devolution and see how the Central and Provincial finances were gradually evolved.

Up to 1833, each province was financially independent, raising its own revenues and spending it in the manner it liked. The central control was unknown. To use Dr. Ambedkar's words, "the several provinces were like separate clocks, each with its mainspring in itself."¹

But the Charter Act of 1833 made a radical change in this position. It laid the foundation of legislative centralization and together with it came the financial centralization. All the revenues came to be vested in the Governor-General-in-Council and the Provinces became merely collecting and spending agencies. The Provincial Governments lost all financial control and responsibility. They had no power of taxation and even the smallest expenditure was rigorously controlled by the Central Government. The estimate of expenditure were prepared by the Provincial Governments and the Central Government granted the money. The provinces had no interest in developing revenues, nor any inducement for effecting economies. They pitched the demand as high as possible, because they had "a purse to draw upon of unlimited, because of unknown, depth." To use *Strachey's words*, "the distribution of the public income degenerated into something like a scramble in which the most violent had the advantage with very little attention to reason; as local economy brought no local advantage, the stimulus to avoid waste was reduced to a minimum and as no local growth of income led to local means of improvement, the interest in developing the public revenues was also brought down to the lowest level."

Such a system was, therefore, not likely to last. Financial decentralization seemed to be the only remedy and the credit for taking the first step in this direction belongs to Lord Mayo, who in 1871 transferred certain departments, local in character, e.g., jails, roads and medical services for administration to the Provinces. In addition to the departmental receipts from these departments, the Provinces were given fixed lump-sum grants to enable them to administer these departments. The Provincial Governments were given, for the first time, discretion in allotting revenues assigned to them.

1. Ambedkar, B. R.—*Evolution of Provincial Finance in British India*, 1925, p. 7.

The next step was taken by Lord Lytton's Government in 1877 when Provinces were made responsible for expenditure of some more departments, e.g., Land, Revenue, General Administration and Law and Justice. And, besides the fixed annual grants, the Provinces were assigned some sources of revenue such as *income-tax*, stamp duties and alcoholic excises; only in the case of two Provinces, Burma and Assam, a definite proportion of land revenue took the place of the fixed grant.

In 1882, in the Viceroyalty of Lord Ripon, a system, called "the divided heads of revenue," was introduced. The defect of the previous settlements lay in the annual grant by the Central Government. Every year it proved to be a bone of contention. These grants were given without reference to Provincial needs often proved inadequate. In 1882, these annual fixed grants were abolished and instead the provinces were assigned exclusively certain heads of revenue and a share in some others. Thus the sources of revenue were classified into three groups; (1) *wholly Central* e.g., Irrigation, Customs, Salt, Opium, Post and Telegraphs, etc.; (2) *wholly Provincial*, e.g., Forests, Registration, Provincial rates, besides departmental receipts from Law and Justice, Public Works and Education; and (3) *divided heads*, e.g., Land Revenue, Irrigation, Income-tax, and Stamps.

In order to impart greater stability to the finances, the settlement was made subject to revision after every five years. These quinquennial revisions were made in 1887, 1892, and 1897, involving no change of principle but only some minor adjustments.

In 1904 these settlements were made quasi-permanent by Lord Curzon to avoid any element of uncertainty even after five years.

Lord Hardinge's Government made them permanent in 1912. This system continued till the Reforms of 1919 made another radical change.

The main features of the pre-Reform financial system were the rigid control exercised by the Central Government both over provincial expenditure to enforce economy and provincial revenue to ensure efficiency of collection. The Provinces had no independent powers of borrowing or taxing. The Montford Report defended the system in these words: "If many buckets are dipping into one well and drought cut short the supply of water, obviously the chief proprietor of the well must take it upon himself to regulate the drawings." These settlements were, further, based not on provincial revenues but on provincial needs. There was also a lack of uniformity in the percentage of

the provincial share out of each head of revenue. This was inevitable because it was not possible to harmonise provincial needs with a uniform share out of the revenues. Assignments were also made by the Centre to supplement the provincial revenues.

4. Financial Arrangement under the Reforms Act of 1919 :

The Reforms Act of 1919 put the financial relation between the Central Government and the Provincial Government on an entirely new basis. The divided heads of revenue were abolished and a clear-cut separation was effected between the resources of the Central Government and those of the Provincial Governments. The Central Government was assigned Income-tax, Customs, Commercial Stamps, Railway Receipts, Salt, Opium, and Post and Telegraphs ; and the Provincial Governments were given Land Revenue, Irrigation, Alcoholic Excise, Forests, Court-fee, Stamps and Registration Fees.

Other financial changes made by the Refoms included the granting of borrowing and taxing powers to the Provinces. The new taxes which the Provinces could impose were put in a schedule and came to be known as scheduled taxes. These were taxes on betting, amusements, advertisements and succession duties and taxes on land put to non-agricultural uses.

5. The Meston Award : This distribution of resources between the Centre and the Provinces created a deficit of about Rs. 9 crores in the Centre and gave a surplus of about Rs. 18 crores to the Provinces. Provincial contributions were necessary to make up this deficit till the growth of Central resources made the deficit disappear. A committee presided over by Lord Meston was appointed to deretmine the contributions payable by the Provinces, and the decision given by the committee has come to be called the Meston Award or the Meston Settlement. In giving the award the committee took care to see that every Province had a reasonable working surplus and that no Province should be under the necessity of embarking on a big tax programme. The committee recommended initial, intermediate and standard contributions. The initial contributions were based on the immediate financial situation in a Province, whereas the standard contribution was based on the consideration as to what it can, and ought to, pay in the long run.

6. Criticism of the Meston Settlement or of the Financial Scheme of the Reforms of 1919 : The Meston Settlement met with strong criticism, each Province having an objection of its own. Some Provinces, like the Punjab, the U.P. and Madras,

protested against larger contributions, while Bombay and Bengal complained against their being deprived of their highly productive source of revenue, *ziv.*, Income-tax. The following are their main objections to this scheme :—

(i) *Wrong Allocation.* The allocation of resources between the Centre and the Provinces ignored their relative requirements. The functions of the Central Government are more or less stationary. The Central Government is concerned, at any rate at present, with the maintenance of the administrative machinery and the provision of defence. Reduction in military expenditure and in that on services is being loudly demanded by all Indian publicists. The expenditure of the Central Government, therefore, is not likely to increase; it is rather expected to decrease, whereas the Central Government has expanded sources of revenue, like income-tax and customs. Provinces, on the other hand, are charged with beneficent functions or the "nation building" departments. Their present expenditure on such services is not even a fraction of what it ought to be. There is a persistent demand for the expansion of these services and the provincial expenditure on them, in fairness to the people, must increase by leaps and bounds. But the provincial resources are inelastic. Land revenue is already oppressive in the case of the majority of the small cultivators; excise revenue can only increase if people take to drinking on a large scale, whereas the Provinces aim at prohibition; Stamp-fee is a tax on justice; Forests require liberal initial expenditure. Thus the scheme is defective because it combines growing expenditure with diminishing revenue in the Provinces and expanding revenues and stationary expenditure in the Centre. Between 1923-24 and 1928-29, while the total provincial expenditure increased by 22 per cent., their revenues increased only by 4 per cent. As against this the increase in Central resources was substantial.¹

(ii) *Inter-Provincial Inequalities Accentuated.* Another defect is that some Provinces feel that they have not been fairly dealt with and that the existing inequalities have been further aggravated. The highly industrialized Provinces, like Bombay and Bengal, suffered; for their only productive source, *i.e.*, income-tax, was taken away, while the agricultural Provinces, like the Punjab, gained because they got land revenue which is the only important source for them. Thus the administration of Bombay came to be financed by taxes on small cultivators in the shape of land revenue and the factory worker in the shape of excise; Bengal had to rely more on stamp revenue arising out of litigation and

1. Ahmad, Z. A.—Public Revenue and Expenditure in India, 1938, pp. 5-6.

Madras on the sale of liquor licences! This was not a happy situation.

(iii) *Disparity between Different Classes of the Community.* The scheme also resulted in a very unequal contribution to the revenues by the different classes of the people considering the benefits received. People live directly under the Provincial Governments which administer to their most vital needs. But the provincial exchequer is largely fed by the agriculturists. The industrial and commercial classes, on the other hand, who live in urban area and considerably benefit from the activities of the Provincial Governments, contribute to the Central exchequer. The Provincial Governments had practically no power to tax the industrial classes. This created an odd situation in the Provinces and embittered the relations between the agriculturists and non-agriculturists. Attempts are now being made in Pakistan Provinces like W. Punjab to tax the non-agricultural classes so that they also pay a due share of the provincial expenditure.

(iv) Lastly, it may be mentioned that a clear-cut division of revenues is impracticable and is to be met with nowhere in the world. There is no natural line of demarcation between central and provincial revenues. It is a federal solution applied to a non-federal State. Even in federations, this theoretical principle is respected more in the breach than in the observance. In the U.S.A., Australia and other federations the tendency is towards integration and not separation. The Federal Governments have come to play a role in modern times that was not at all anticipated in the beginning. Their activities of guiding, co-ordinating and goading the Provincial Governments are daily expanding. More calls are being made on their services, with the inevitable result of augmenting their financial powers. This complete separation of resources could not prove satisfactory in India and injustice done to the Provincial Governments and to the people has been admitted. A new allocation has been suggested, to which we shall turn later.

7. Financial Developments since the Reforms : There was bitter disappointment waiting for the Indian finances after the World War I. All the estimates of the financial pundits were falsified. They had expected the Provinces to gain; but the cost of reconstruction after the war, currency and exchange instability, fluctuation in prices impeding commercial development and, above all, the high scale of salaries—all combined to create deficits in the Provincial budgets. The Central finances fared no better. Failure of monsoons, trade depression and abnormal rise in the military budget which stood at Rs. 78 crores in 1921-22—an

amount more than the entire net revenue of the Government of India in that year, excluding the provincial contributions, were some of the factors adversely affecting the Central finances. Both the Central and the Provincial Governments had to struggle to restore the financial equilibrium by drastic economy and additional taxation.

Protests from the Provincial Governments against the Meston Settlement kept pouring in.¹ The Muddiman Committee attributed the failure of dyarchy to the defective Meston Settlement and recommended its early revision. The improvement in Central finances after 1923 led to gradual reduction in the provincial contributions and to their final extinction in 1928-29 after having been temporarily suspended in 1927-28.

But the abolition of Provincial contributions only accentuated the already glaring inter-provincial disparities. The contributions had at least the effect of toning down inequalities by making the agricultural Provinces pay more; and, therefore, when they were abolished, the discontent of the industrial Provinces, like Bombay and Bengal, became all the more deeper.

The question, therefore, had to be re-examined and it was made the subject of a series of inquiries, e.g., in 1929 by *Sir Walter Layton* who was the Financial Assessor of the Simon Commission, in 1931 by the Peel Committee (Federal Finance Committee of the First Round Table Conference,) in 1932 by the Percy Committee (Federal Finance Committee of the Second Round Table Conference) and in 1933-34 by the Joint Select Parliamentary Committee. Financial provisions of the new Constitution were the outcome of these inquiries. We shall study these provisions in a separate section.

CENTRAL FINANCE

8. Heads of Revenue of the Government of India : The principal heads of the revenue of the ex-Government of India were Customs, Central Excise, Corporation Tax, Income-tax, Salt and Opium. Other sources of revenue are Railways, Irrigation, Posts and Telegraphs, Debt Services, Civil Administration, Currency and Mint, Civil Works and Miscellaneous public improvements, Defence Services, Tributes from Indian States, etc.

Now a word about each of the principal heads of revenue.

9. Customs : Custom duties include both import duties and export duties. Before the Mutiny the import duty was below 5 per cent., but on account of the financial stringency following

1. See Muddiman Committee Report, para 53..

the Mutiny, it had to be raised to 10 per cent. But on the agitation of the interested industrialists in England and the preaching of the free traders, the duty was first reduced in 1875 to 5 per cent. and abolished in 1882 altogether. The exchange difficulties of the Government of India compelled them to reimpose 5 per cent. import duty in 1894. This evoked a storm of protest from Lancashire, and to propitiate them 5 per cent. excise duty was levied on yarn of 20 counts and above. As this would not give them satisfaction, import duty on cotton piecegoods was reduced to $3\frac{1}{2}$ per cent. and a similar excise duty on cotton piecegoods made in India was also levied. This was considered to be an abuse of political power and was justly made a subject of strong criticism by the Indian leaders. Benefit to Manchester was doubtful; but injury to the growing textile industry of India was certain. The coarse Indian piecegoods could possibly not compete with finer Manchester cloth. The excise duty was, therefore, uncalled for. Further, it benefited the richer classes using finer cloth and injured the poor masses who used coarse Indian cloth. The import duties had to be raised later from time to time according to financial exigencies. But the cotton excise duty continued to be $3\frac{1}{2}$ per cent. till it was abolished in 1926 on the recommendation of the Legislative Assembly. The import tariff was recast completely during the War (1914-18) and was changed into a protective tariff in 1924, when a policy of discriminating protection was adopted. The Custom duties have been the mainstay of the Government and have come to their rescue whenever there was a financial stringency, e.g., in early thirties. The budget for 1942-43 provides for an all-round surcharge of 20 per cent., except on salt, raw cotton and petrol. In 1941-42, the yield of customs was put at Rs. $3\frac{1}{2}$ crores nearly.

Ottawa Trade Agreement of 1932 and Indo-British Trade Agreement of 1939 introduced the principle of Imperial Preference.

The only export duties have been on hides and skins and jute (now Pakistan monopoly).

Customs offend against the canon¹ of equity, for they press more heavily on the poor than on the rich. This view is supported by the analysis given by the Indian Taxation Enquiry Committee in 1925. According to a memorandum issued by the Office of Economic Adviser to the Government of India, the "weight of import duties presses most heavily on goods of general consumption, less severely on luxury goods and least on capital goods and raw materials."¹

1. Jatha and Beri—Indian Economics, Vol. II, p. 516.

10. Income-Tax : History. Income-tax was first introduced in 1860 to meet the financial embarrassment caused by the Mutiny. Changes were made from time to time to suit the financial requirements of the year ; but important changes were made first in 1903 when the minimum taxable income was raised from Rs. 500 to Rs. 1,000, in 1916 when scales of rates were revised, and the principle of progression was applied. In 1931 the minimum exemption limit was lowered to Rs. 1,000, surcharges on income-tax and super-tax were levied and super-tax was introduced. The minimum exemption limit of Rs. 2,000 was restored in 1935 and the surcharges were abolished in 1939 and re-imposed since 1940-41.

Income-tax Reforms. In 1935, the Government of India appointed a committee to conduct an exhaustive inquiry into the Indian income-tax system. The Income-tax Inquiry Committee reported in 1936. As a result of these recommendations an important measure was passed in 1939. *The Income-Tax Act of 1939* introduced several necessary reforms. It substituted what is called the "slab" system in place of the previous "step" system. According to the previous system, the whole income was assessed at the same rate ; but under the new system, the income is divided into bits and each successive slice is taxed at a higher rate. This system is calculated to increase the yield of income-tax, mulct the wealthy minority more and afford relief to the poor tax-payer. Sir Walter Layton, the Financial Assessor of the Simon Commission, had recommended the steepening of the progression and this Act gave effect to it. The Indian income-tax is now more equitable. Besides, the Act contains provisions designed to stop all loopholes and make evasion of the Income-Tax Law difficult. It makes it obligatory on all persons earning more than Rs. 2,000 to submit returns of their income. The failure to ask for the form and send in the return makes them liable to a penalty. The Act also makes the aggregate of the income of husband and wife taxable. The whole procedure was made up-to-date and efficient. The Act undoubtedly makes a great improvement in the income-tax system. The Indian income-tax rates are low as compared with those charged in Europe.

A very important improvement in the income-tax was made in 1945-46 budget, viz., a distinction is now made between earned and unearned income. Relief to the extent of one-tenth of the income is given in the case of earned incomes. It is only fair that a person who has actually to work to earn his income should be treated more leniently than the idle rich whose holdings in joint-stock companies, lands or bank accounts automatically bring in a

stream of income without his having to raise his little finger. Our system does not take into consideration the number of dependents. The unit is not the individual but the family and equity demands that of two men having the same income, the man with the larger family should be called upon to pay less. Such abatements or family allowances are given in England. Here it is pointed out that the family being a universal phenomenon, almost everybody will get an abatement and the administration will be difficult and costly. Secondly, agricultural incomes, however big, are still exempt from income-tax. This is a great lacuna in our system and is discussed in the next section. Both these reforms are very necessary.

Changes on account of World War II. The war is responsible for some changes in the income-tax. No change was made in the basic rates in 1940-41 budget; but an *Excess Profits Tax*, at the rate of 50 per cent. above a taxable minimum of Rs. 30,000, was levied on extra profits made during the war. The business community, of course, protested on the ground that it would hamper industrial development and prevent the industries from deriving a full benefit from the war, and also that having passed through lean years, the industry was entitled to appropriate these abnormal profits. The Supplementary Budget in 1940 introduced a surcharge on income-tax at the rate of 25 per cent. In 1941-42 Budget the Excess Profits Tax was raised to 66-2/3 per cent. and the surcharge to 33-1/3 per cent.

Next to customs, income-tax is the most important source of revenue for the Central Government and it was estimated to yield about Rs 24 crores in 1921-22.

Rates of Income-Tax (under 1939 Act): (a) In the case of every individual, Hindu undivided family, unregistered firm and other association of persons when the total income exceeds Rs. 2,000:

	Rates			Surcharge		
	(In the rupee)					
	Rs.	As.	Ps.	Rs.	As.	Ps.
On the first Rs. 1,500 of total income	...	Nil		Nil		
On the next Rs. 3,500	...	0	0 9	0	0	6
" " 5,000	...	0	1 3	0	0	9
" " 5,000	...	0	2 0	0	1	2
On the balance of the total income	...	0	2 6	0	1	3

(b) In the case of every company and registered firm whatever the income the rate is 2 as. 6 ps. in the rupee.

Rates of Super Tax (under 1939 Act).

(a) In the case of every individual, Hindu undivided family, unregistered firm and other association of persons—

		Rate			Surcharge		
		(In the rupee)					
		Rs.	As.	Ps.	Rs.	As.	Ps.
On the first Rs 25,000 of total income	...	Nil			Nil		
On the next Rs. 10,000	...	0	1	0	0	0	6
" " 20,000	...	0	2	0	0	1	0
" " 70,000	...	0	3	0	0	1	6
" " 75,000	...	0	4	0	0	2	0
" " 1,50,000	...	0	5	0	0	2	6
" " 1,50,000	...	0	6	0	0	3	0
On the balance of total income	...	0	7	0	0	3	6

(b) In the case of companies 1a. 6 ps. in the rupee on the total income.

11. Taxation of Agricultural Incomes : The greatest gap in our tax system is the continued exemption of agricultural incomes from income-tax, however large these incomes may be. The case for subjecting these incomes to a tax is so convincing that it is really surprising why they still enjoy this immunity. "On grounds of equity," remark the Indian Taxation Enquiry Committee, "there is no reason why the surplus of the larger landholder should be exempt."¹

Reference to history does not support any claim for this exemption, because agricultural incomes were liable to income-tax between 1860 and 1873 with a short gap of four years. The argument that the agriculturists pay land revenue in lieu of income-tax and that if they have to pay the income-tax too, it will amount to double taxation is also not convincing. The land revenue demand is fixed permanently in the case of some and for a long period in case of others; it is not graduated and does not at all respond to the variations in the value of the agricultural produce. Therefore, there is no ground whatsoever for the continued exemption of agricultural income from taxation.

The taxation of agricultural income will strengthen the finances, will rectify to some extent the regressive character of our taxation, will equalise the burden of taxation between the agriculturists and non-agriculturists on the one hand and the landlord and the cultivator on the other. It will tax the non-agricultural income of a landholder at a higher rate. It will also, incidentally, put a stop to the tendency of investing the savings in land to escape taxation. Now that, on account of the War, the value of the produce of land has increased enormously,

1. Indian Taxation Enquiry Committee Report, 1924-25, p. 223.

the tax-gatherer must claim his share out of the enhanced agricultural profits. The assessment of agricultural profits is no doubt difficult, but the difficulty is not peculiar to us. We have got a very elaborate organization for keeping land records and for the administration and collection of land revenue. We should, therefore, have much less administrative difficulty in the matter. So far only vested interests have stood in the way. Even a very moderate proposal of the Government of India in 1918 to take agricultural income into account for determining the rate for their income-tax was turned down. The Government of India was prepared to face the new administrative difficulty. One would wish the more sound and fairer sense had prevailed in the Indo-Pak legislatures where the landowning interests predominate. Let us hope that our new legislators will rise to the occasion. Already in Assam and Bihar agricultural incomes have been taxed, although in the latter case the minimum taxable limit has been kept unduly high at Rs. 5,000 and the rates of the tax are low.

12 Central Excise Duties: The Government of India imposed duties on steel ingots, motor spirit and kerosene oil. But the most important of the excise duties were imposed in 1934, *viz.*, on sugar and matches.

The excise duty on sugar was at the rate of 10 as. per cwt. on khandsari sugar and Rs. 1-5 per cwt. on other sugar. These rates were raised to Rs. 1-5 and Rs. 2 respectively in 1937. In 1940, as a war measure, the duty on sugar other than khandsari was raised from Rs. 2 per cwt. to Rs. 3. The measure was naturally criticized by the sugar interests as nullifying protection granted to the sugar industry only two years before, and it was said that it would impede the fuller development of the sugar industry. The Government's case was that the gap caused by the loss of revenue on the imports of sugar on account of protection had to be filled up and that the duty would check the hasty and unhealthy growth of the industry.

On matches the excise duty was levied at the rate of Re. 1 per gross of boxes or booklets containing an average less than 40, Rs. 1-8 if the number was more than 40 but less than 60, and Rs. 2 if the number was more than sixty. In 1941, the rates were doubled as a war measure.

The chief reason for the imposition of these excise duties was the necessity of balancing the budget which compelled the Government of India to look round for additional source of revenue.

13. Salt Tax : This is the most unpopular tax in India¹ and Mahatma Gandhi selected this tax for the purpose of his civil disobedience campaigns. The Government income is derived from the sale of Government salt, excise duty on salt manufactured in India and import duty on salt.

The rate of salt duty has been varied from time to time. In 1888, it was Rs. 2-8-0, per maund, reduced to Rs. 2 in 1903, Rs. 1-8-0 in 1905 and Re. 1 in 1907 ; it was raised to Rs. 1-4-0 in 1916, to Rs. 2-8-0 in 1923, and reduced to Rs. 1-4-0 in 1924. It was again raised to Rs. 1-9-0 in 1931, and reduced by 2 annas in 1933. The salt tax was estimated to yield Rs. 9 crores in 1942-43.

Salt tax is kept up on the ground that it is a light tax, that it is an old tax and that it enables everybody to contribute a small sum to the State Exchequer. This gives the masses an interest in civic affairs and is the only tax by which the Indian masses can be approached. There is no force in these arguments. This is not the only tax which is paid by the masses, but most of the taxes in India are borne by them. And this should be more than enough to create civic responsibility in our masses, and they could well have been spared this last straw. The tax looks small ; but the fact that the consumption of salt decreased when the rate was raised and increased when the rate was lowered shows how much it is felt. In 1882, the consumption was 28.3 million maunds ; in 1887 when the tax was lowered by 20 per cent., the consumption increased to 33 million maunds ; in 1888, when the tax was raised, the consumption decreased by 2 million maunds.² Between 1903 and 1908, when the duty was lowered, the consumption increased by 20 per cent.

It is the acid test of Indo-Pak poverty, that the demand for even a commodity like salt is elastic. Salt is an article of vital necessity for the maintenance of life, health and physique of both man and beast. It is very much desirable that this iniquitous impost and a universally condemned tax is abolished.

14. Opium : The Government in India has got a monopoly of opium both in production and distribution. Poppy can be grown only under licence and the licensee has to sell the entire supply to the Government and then it is manufactured in Government factories. There are also special arrangements with

1. For history of the Salt Tax and arguments for and against it see Indian Taxation Enquiry Committee Report, paras 164-180.

2. Ramaswamy Aiyangar—Some Trends of Modern Public Finance, 1936, p. 145.

States in Central India and Rajputana which supply opium in crude form which is then refined in Government factories.

The Government revenue is derived from the monopoly profits arising out of the sale of Government opium, export duty on opium sent out of native States and the vendor's fees. The bulk of the revenue under opium is from export to foreign countries.

Under the humanitarian activities of the League of Nations this source of revenue has almost dried up. In 1907 it was agreed to stop export to China on Government account by 1914. In 1926 Government of India promised to reduce by 10 per cent. every year exports of opium to Far Eastern countries for other than medical and scientific purposes, so as to extinguish all exports in 1935. This promise has been honoured. China had also agreed to make a corresponding reduction in the production of opium, but it is said she did not carry out her part of the agreement. But India has got the satisfaction of at least having done her little bit to help the Chinese to get rid of this noxious drug, even though at a great sacrifice of revenue. India used to get Rs. 8 crores on average per year in the years preceding the war (1914-18) and in 1942-43 it was estimated to yield only Rs. 82 lakhs.

Production and consumption of opium in India is one of the blackest marks against India. It is really regrettable that she still has some of this tainted revenue.

15. Railways : The railways were a losing concern till 1900, when they began an era of profits and gave a welcome support to the Government revenues. We have already treated in detail the problem of railway finances.

16. Posts and Telegraphs : This is not a very important source of revenue. This department is being run more for public convenience than for profit. For 1942-43 net receipts were estimated at Rs. 5 crores nearly.

The other heads of revenue are of minor importance.

17. Central Expenditure : Besides the railways, the chief items of expenditure are Defence Services, Debt Services and Civil Administration. The public expenditure in India has continued to swell and has grown to huge dimensions. It has increased in the present century from Rs. 88.07 crores in 1899-1900 to Rs. 222.84 crores in 1940-41.

18. General Statement of the Revenue and Expenditure of the Government of India, 1945-46 estimates :—

Revenue				Estimated amount (in lakhs of Rupees)
Customs	...	...	...	55,25
Central Excise Duties	...	...	...	48,59
Corporation Tax	...	...	...	89,67
Taxes on income (other than Corporation tax)	...	...	...	1,00,83
Salt	...	...	...	9,30
Opium	...	...	...	1,27
Interest	...	...	...	1,44
Railways; Net contribution to general revenues	...	...	...	32,00
Posts and Telegraphs: Net contribution to general revenues	...	...	...	11,85
Civil Administration	...	...	...	2,26
Currency and Mint	...	...	...	12,28
Civil Works, etc.	...	...	...	66
Receipts from Indian States	...	...	...	63
Receipts connected with the War	...	...	...	16,42
Other sources of Revenue	...	...	...	3,18
Deduct Share of Income-tax payable to provinces	...	...	...	23,29
Total Revenue				3,62,34
Deficit				1,55,29
Total				5,17,63
Expenditure				
Direct Demands on the Revenue	...	...	...	8,86.38
Irrigation Embankment etc.	...	...	...	10,77
Posts and Telegraphs—capital outlay charged to revenue	...	...	...	1,60
Debt Services	...	...	...	33,95.19
Civil Administration	...	...	...	27,55.00
Currency and Mint	...	...	...	1,70.49
Civil Works, etc.	...	...	...	2,48.58
Miscellaneous	...	...	...	19,20.78
Defence Services net	...	...	...	3,94,23.39
Contribution and Miscellaneous adjustments between Central and Provincial Governments...	...	...	...	1,73.8
Extraordinary items	...	...	...	30,79.00
Total				5,17,62.99

19. Recent Indian Finance or Indian War Finance:¹ The recent Indian finance, in common with the finances of other countries of the world, has been dominated by the global war whose expenditure in countries like U.S.A., U.K., and U.S.S.R. reached astronomical figures. In India the financial burden rose nearly six times the pre-war level, as the total expenditure charged to revenue in 1938-39 was Rs. 85.15 crores, whereas for 1944-45 it was Rs. 512.65 crores. The total war expenditure in India which was only Rs. 53 crores in 1939-40 shot up to nearly Rs. 900 crores

1. See 'Indian Information' of June 1, 1945.

in 1944-45 and was almost the same in 1945-46. One would have shuddered to think of such a figure before the war. There was also a phenomenal expansion in the revenue too. The past seven years have brought about an increase of 329% and 122% respectively in Central and Provincial revenues.

Let us examine the two sides of the balance-sheet, *viz.*, the expenditure and the revenue.

Expenditure During the War : During the six years of the war the aggregate expenditure charged to revenue was Rs. 1598 crores and on the pre-war level it should have been only Rs. 511 crores. Thus if the war had not intervened, the expenditure would have probably been one-third of this amount. This spectacular increase is solely due to an increase in the defence expenditure, which was only Rs. 46.18 crores in 1938 but which rose to Rs. 397.23 crores in 1945-46 and Rs. 391.35, crores in 1945-46. This is indeed a big jump. But even these figures do not give complete idea about the total defence expenditure as they do not include the amounts spent by His Majesty's Government under the financial settlement between the Government of India and His Majesty's Government and the Lend-Lease aid received from the U.S.A.

The Revenue Side : In order to meet this huge expenditure, the Government of India had to resort to all the usual devices for raising funds, *viz.*, increasing the rates of existing taxation, the imposition of new taxes, the raising of loans and, finally, created money or inflation. The total revenue during the six years of war comes to 1,113 crores which should have been only Rs. 567 crores at the normal pre-war level, which means an increase of 100%. Extra taxation accounts for two-thirds of this increase and the rest is a normal growth.

The supplementary budget of 1940 levied a surcharge of 25% on income-tax, super-tax and corporation tax, which was raised to 33% in 1941-42 and to 50% in 1942-43. The rates of corporation tax, income-tax, and surcharge on super-tax were raised in 1943-44 and surcharge on income-tax on certain slabs was raised in 1944-45.

Excess Profit Tax (E. P. T.) was levied in 1940-41 at the rate of 50% on all abnormal war profits above a taxable minimum of Rs. 30,000 ; the rate was raised to 66½% in 1941-42. In 1944-45 under the compulsory deposit scheme the whole of the excess profits remaining after E. P. T. and income and super-tax have been paid was immobilised. The yield from E. P. T. was Rs. 110 crores in 1944-45 and for 1945-46 it was estimated at Rs. 90

crores. The industrialists have objected to the E. P. T. on the ground that it has made it impossible for them to build any reserve for reconditioning of their plants after the war. The war has meant a great strain and wear and tear to the plants, some of which must be replaced as soon as possible. The tax has held up the rationalisation or efficiency schemes and thus impaired the competitive strength of the Indo-Pak industry. In the absence of this tax they would have faced the post-war competition with confidence. Even Sir Archibald Rowlands admitted in his budget speech for 1946-47 that the E. P. T. was a thoroughly bad tax by all the canons of taxation and he has decided to discontinue it on earnings arising after 31st March 1946. It was only an emergency measure. As for the refunds of E. P. T. deposits, it has been decided to sanction them in advance of the date for which the law provides, provided they are not distributed as dividends to shareholders but are required for the provision or replacement of buildings, plants or machinery. The abolition of E. P. T. was a welcome relief to Indian industry. Other 'casements' to industry include special initial depreciation allowances of 10% on new buildings and of 20% on new plant and machinery and to allow for income-tax purposes expenditure on scientific research. It is also proposed to widen the scope of what is known as the obsolescence allowance so as to make it include the loss of the asset by destruction or demolition and also to extend it to buildings. These allowances will make for the ploughing back of the undistributed profits into the industry.

Several other taxation measures were necessitated by the war. Sugar excise and import duties were raised from Rs. 2 to Rs. 3 per cent. in 1940-41. Petrol tax was raised from 10 as. per gallon to 12 as. The supplementary budget in November 1940 provided for an increase in postal and telegraph rates and telephone rentals which were increased still further in 1943-44. The excise duty on matches was doubled in 1941-42. A new excise duty on pneumatic tyres and tubes was introduced. The import duty on artificial silk yarn was increased from 3 as. per lb. to 5 as. per lb. An emergency surcharge of one-fifth was levied on all customs import duties in 1942-43. Next year, two new excise duties were introduced, viz., on tobacco and on vegetable products. The excise entry on tobacco was further increased in 1944-45 and three new excise duties were introduced in that year, viz., on betelnut, coffee and tea.

There was not much increase in taxation in 1945-46 except that surcharge on slabs of income above Rs. 15,000 was increased by 3 ps., the excise duty on highest class of tobacco was raised and

some changes were made in the postal parcel rates and telegraph and telephone rates.

The 1944-45 and 1945-46 budgets have been described as anti-inflationary budgets. Raising of the old rates of taxation, imposition of fresh taxation, 100% immobilisation of E. P. T., the 'pay-as-you-earn' income-tax and the big borrowing programme and savings schemes—all had a dual purpose of bringing in more revenues to the State and absorbing the purchasing power of the people in order to check inflation.

As a result of the taxation measures adopted during the war the Indo-Pak tax structure has undergone a fundamental change. Now the tax system has become decidedly more progressive. The direct taxes have come to play much more important part. The regressive character of the Indian tax system has been considerably toned down. The aggregate tax on income increased from Rs. 17.28 crores in 1938-39 to Rs. 210.00 crores in 1944-45 and Rs. 190.5 crores in 1945-46 which means a 12-fold increase. In 1938-39 the proportion of taxes on income to total tax revenue was 22.6% but was as high as 70% in the revised budget for 1944-45 and 62.3% in 1945-46. One important reform has now been made in our income tax system, viz., that it now differentiates between earned and increased income and grants a rebate on the earned incomes—a depreciation allowance on the home machine. The yield of customs revenue in spite of 20% general surcharge showed a decline due to import restrictions and shipping difficulties. The excise revenue has shown unusual buoyancy. Their yield in 1938-39 was Rs. 8.66 crores but it jumped up to Rs. 39.07 crores in 1944-45 and Rs. 49 crores in 1945-46. In course of time the excise duties may be expected to wrest a place of importance from the customs revenue. The yield of customs duties was Rs. 40.51 crores in 1938-39. It dropped to Rs. 26.20 crores in 1942-43 but the estimate for 1945-46 rose to Rs. 55.25 crores. These are a few indicators to show that a bit of a revolution has been effected in our tax system.

20. The Salient Features of the Budget, 1946-47: Sir Archibald Rowlands claimed in his budget speech that he aimed at making his budget conform to the ideal of fiscal policy as far as possible. He said that fiscal policy was not an end in itself. It must subserve the ends of national policy. Its purpose should be not merely to raise a given revenue but to raise it in such a way as to obtain the maximum social and economic advantage and to distribute the burden as justly and as fairly as possible between the various classes of tax-payers.

He also referred to the great problem of poverty that India had to tackle. He said, "although our external foes have been overthrown the world, particularly India, is still surrounded by a whole array of dangerous and enduring enemies—poverty, squalor, ill-health, illiteracy, under-nourishment and under-employment, and of these the most formidable is poverty. If we can expel this adversary from our midst, we shall find no great difficulty in dealing with the allies who revolve round his axis."

The revenue estimates have been placed at Rs. 307 crores as against Rs. 362'24 crores for the current year. Customs receipts have been placed conservatively at Rs. 65 crores net and Central Excises at Rs. 47'20 crores. The Corporation tax and Income-tax were expected to yield Rs. 158 crores including Rs. 75 crores from E. P. T. The surplus of Postal and Telegraph Departments had been put at Rs. 10 crores of which only 75 per cent. were made available to the general revenues instead of the whole as before. The contribution from the Railways was estimated at Rs. 7'36 crores.

The estimated expenditure, on the other hand, was Rs. 355'71 crores leaving a prospective deficit of Rs. 48'71 crores.

The Budget estimates of Defence expenditure comes to Rs. 243'77 crores for the Revenue and Rs. 1'37 crores for the capital head as compared with Rs. 376'42 crores and Rs. 14'93 crores respectively in the revised estimates for 1945-46.

The ways-and-means operations have come to occupy a position of special importance. There is still the immediate problem of an excess of purchasing power competing for a limited volume of consumer goods. Therefore, the aim of the financial policy is to divert, through the issue of various loans and through other forms of borrowing as well as through measures of taxation surplus funds in the hands of private citizens to the public use. Efforts are being made to popularise investment in Government loans. During the war savings were a means of combating inflation but in peace time they can serve a great social end. The Small Savings Scheme has, therefore, been reoriented with the primary purpose of encouraging consistent savings among the less well-to-do sections of the community. As Sir Jeremy Raisman put it, borrowing became the sheet-anchor of India's war-time finance.

The total amount invested by the public in the various public loans offered during the period February, 1945 and January 1946 aggregated Rs. 346 crores compared with Rs. 286 crores during the

corresponding period last year. In 1946-47 it was hoped to rise to Rs. 300 crores.

In order to help post-war planning the Central Government had undertaken to provide Provincial Governments with all the funds that they may require for approved schemes up to the end of March 1947. A lump sum provision of Rs. 35 crores had been made for making advance payments of grants to the Provinces and Rs. 15 crores for loans to the Provinces for productive development works.

It had also been announced that a Taxation Committee would be set up to ascertain what adjustments or modifications of the taxation system of the country as a whole would be required, and could, from the practical administrative point of view, be introduced in order to produce a properly balanced and scientific tax structure, fair in its incidence and adequate to the needs of a forward development policy, without detrimental effect on initiative and private enterprise, and with due regard to the administrative requirements for the prevention of tax evasion.

An Industrial Finance Corporation is proposed to be established in order to ensure the availability of medium and long-term credits so industrial enterprises in Pakistan where the normal methods of industrial finance are inadequate. Also, a National Investment Board may be set up for the most advantageous utilisation of the economic resources of the country.

In order to encourage the building programme two years' income-tax exemption may be given for residential buildings and 15% initial depreciation allowance on buildings used for business purposes.

The main taxation proposals were as under :—

Discontinuance of E.P.T. after March 31, 1946.

Duty on kerosene to be reduced from four annas six pies to three annas nine pies per gallon.

Duty on motor spirit to be reduced from 15 annas to 12 annas per gallon.

Duty on imported betelnut to be raised to five and a half annas a pound without any surcharge.

Specific duty of Rs. 25 per tola to be imposed on gold bullion and coin.

The existing silver duty of 3 annas 7 1/5 pies an ounce to be stepped up to 8 annas.

Income-tax rate on the second income slab of Rs. 3,500 to be reduced from 15 pies to 12 pies; and the rate on the third slab of Rs. 5,000 from two annas one pie to two annas.

Income-tax rate on the balance of income above Rs. 15,000 to be increased from four annas nine pies to five annas.

Amalgamation of surcharges on income tax and super tax with basic rates.

Reduction in the present rate of income tax and super tax on a company from seven and three-quarter annas to six annas by reducing super tax by two annas and by adding a quarter anna to the income tax.

Earned income relief to be raised to one-fifth subject to a maximum of Rs. 4,000 in terms of income.

Differentiation of treatment between earned and unearned income to be extended to super tax.

Reduction in the rate on life insurance companies from five annas three pies to five annas.

Discontinuance of the provision for refunding a portion of the tax in the case of income up to Rs. 6,000.

Duty on cinematograph films to be made a specific duty charged on footage.

Grant of a special initial depreciation allowance of 10 per cent. on new buildings and of 20 per cent. on new plant and machinery and allowance of expenditure on scientific research.

Relief from customs duty on raw materials imported for industry and reduction in rates on such imported plant and machinery as are now suitable.

Additional import duty on cotton imposed by the Cotton Fund Ordinance of 1942 to be amalgamated with the ordinary duty which will thus stand at two annas a pound.

21. Post-war Financial Trends : For some years the customs revenue is likely to register an increase as the shipping situation becomes easy. There is a huge pent-up demand for both consumer and producer goods. The imports are bound to increase. But as industrialisation in Pakistan gathers momentum, this source of revenue will contract and the excise duties will become more important.

The yields from income tax, super tax and corporation tax are likely to go up as Pakistan gains a measure of industrial prosperity.

Direct taxation will assume still greater importance, and the Pakistan tax system will shed its regressive character and become more and more progressive and hence more equitable.

Greater reliance will be placed on public borrowing to finance post-war development schemes. The Provincial schemes alone are estimated to cost several crores.

The higher scales of salaries that have been fixed may put the Government in a fairly difficult position as deflationary tendency sets in.

Sir Jeremy Raisman, in his budget speech of 1944, pointed out that after a year or two of deficits, he expected a surplus of Rs. 100 crores per annum in the 4th or 5th year of the war. An all-out borrowing programme would bring nearly Rs. 1,000 crores in the first five years for financing the post-war development schemes. Among the possible new sources of taxation he mentioned Estate Duty—a duty on property other than agricultural property, agricultural income tax, the expansion of sales or turnover tax and finally revenue from some of the key industries may be nationalised.

22. Taxable Capacity: The term taxable capacity is capable of being used in different senses. In one sense it means the limit beyond which no tax-payer can possibly pay any further tax: it may also mean that for each tax there is an optimum point beyond which the tax should not be increased; otherwise its yield will be declining.

Attempts have been made to estimate a country's taxable capacity in order to explore further avenues of taxation. Sir Josiah Stamp would measure it by the surplus of production over consumption, i.e., by savings. But it is not possible to measure taxable capacity with any precision. As a matter of fact, taxable capacity is not anything definite or a rigidly fixed quantity. It is fluid and it varies with circumstances. It very largely depends upon the psychology of the tax-payers. A popular leader at the helm of the State affairs can galvanize public spirit and enthusiasm so that the response to appeal for financial help is astonishing. People cheerfully pay taxes to further a popular cause which otherwise might have evoked a rebellion. A responsible Government is in a happier position in tapping the potential taxable capacity of the nation. In India there are constitutional reasons for the inadequacy of public revenues. As Sir Walter Layton remarked, "Members of neither the Provincial nor the Central legislatures are willing to incur the unpopularity of voting increased taxation so long as there are no means of ensuring that

the revenue will be spent on services which they might wish to develop or so long as it can be argued that resources might be obtained by reducing expenditure on services not under popular control (such as the army)."¹ The taxable capacity thus depends on the will to pay and anything that affects taxable capacity. The rate of the tax, the method of collection, in particular the purposes on which money is spent and distribution of wealth in the country are some of the important factors that determine the taxable capacity. Further, it is held that private property is a public trust and must be surrendered at the demand of the State.² From this point of view the question of capacity does not arise and the taxation is governed by the necessities of the State.

As for the taxable capacity of India in the sense in which Stamp uses the term, it is pointed out that the consumption in India is very small as the standard of living is extremely low. As the taxable capacity is the measure of the difference between production and consumption, it is inferred that the taxable capacity is large. This is obviously a wrong conclusion, for the production in India is also very small. There is a certain civic minimum of the standard of living not for the individual but the family which must be ensured to the people so that they do not merely exist but live and work efficiently. A tax should not impair the productive capacity of an individual by encroaching upon the bare necessities of life. Sir Walter Layton points out that taxation in India forms only 8 per cent. of the national income, whereas it is 20 per cent. in Britain and 20 per cent. in Japan. According to him, there are large accumulations of wealth which can be taxed without the tax becoming intolerable. He says: "In spite of the wide-spread poverty in India, I see no reason to doubt that the public revenues of India can be substantially increased without taxation becoming intolerable."³ The last six budgets bear ample testimony to the potential taxable capacity of India. But this capacity should be wisely exploited. The only justification for exploiting it will be the increased expenditure on the beneficent functions of the State and after the military budget has been considerably scaled down.

23. Burden of Taxation and its Distribution: There has been a lot of controversy on the subject whether India is lightly taxed or heavily taxed. It has already been mentioned that tax in India is only 8 per cent. of the national income whereas it is as high as 20 per cent. in Japan and 20 per cent. in Britain. The

1. Indian Statutory Commission Report, Vol. 2, pp. 209-210.

2. Stamp—Principles of Taxation, p. 134.

3. Indian Statutory Commission Report, Vol. 2, p. 208.

tax burden per head in 1939-40 came to only Rs. 5-0-2. The tax burden must be now much higher on account of additional taxes levied to meet the war expenditure. It may be put at Rs. 6 per head, nearly. The inference is drawn that India is much more lightly taxed than the other advanced countries. But this is not a valid inference. The figures given above, no doubt, would indicate a lighter burden of taxation in India. But we cannot go by these figures alone. The level of taxation cannot be considered without any reference to the nature of public expenditure. If the citizens do not receive any reasonable return in the shape of beneficent services rendered by the State, even a light tax becomes burdensome. If, on the other hand, the State performs numerous social services for the individuals, even high taxes are ungrudgingly paid. This only means that the people have decided to fulfil more of their wants collectively rather than individually. If the State provides free education, free medical aid, undertakes to look after the dependants of the deceased bread-winner, and train and find a job for every young man, why, it may tax away half of our incomes, and if it goes further and undertakes to provide all our requirements of food, clothing and others and provide free cinemas and such other amenities, it can appropriate in taxation even 75 per cent. of our salary without the taxation becoming oppressive. In other advanced countries State grants poor relief, provides insurance against sickness, unemployment and old-age pensions, makes excellent sanitary arrangements, builds and maintains good roads; and provides educational and medical facilities on a liberal scale. There the taxes cannot be burdensome. But in India, where the bulk of the revenues is swallowed up by the military expenditure, debt services, civil administration and little is left for social services of the type mentioned above, even the small amount of tax is grudgingly given. Further, a higher percentage of tax on incomes in rich countries may actually mean a lower burden of taxation, whereas a lower percentage of the poor country may mean that it is more burdensome. This is an elementary principle of progressive taxation. Therefore, India and Pakistan are not so lightly taxed as is sometimes supposed.

But the inequity, if any, in the tax system does not lie in the figure of taxation but in the distribution of the tax burden and it is in this respect that Indian tax system is the greatest culprit. Most of the Indian taxes press more heavily on the poor, e.g., land revenue, customs, excise duties on matches and salt. Land revenue is positively regressive. Salt tax is simply oppressive. Only income-tax, tax on motor spirit,

and taxes on luxuries in the import schedule fall on the rich. On the whole, the burden on the poor is much more than on the rich. This is the opinion of the experts. The Indian Taxation Enquiry Committee (1924-25) and Sir Walter Layton in 1930 supported this opinion, and Sir James Grigg declared in the Assembly in March 1938: "I have no doubt that taxation in this country (India) lets off the rich too lightly and presses the poor too heavily." Prof. K. T. Shah worked out the figures relating to 1923-24 and came to the conclusion the "economically the weaker and less able section bears pecuniarily the largest proportion of the tax burdens in India. ... While from the average family income of Rs. 1,000 per annum and over, the tax deduction aggregates Rs. 100 crores out of a total of Rs. 600 crores of wealth enjoyed by less than a twenty-fifth of the population, the remainder of Rs. 150 crores is deducted from a total wealth of about Rs. 1,000 or 1,200 crores enjoyed by 96 per cent. of the remaining population."¹

It is necessary that the burden of taxation should be made more equitable. Articles and services of general consumption should be exempted or taxed lightly and those consumed by the rich should be taxed more heavily. There is a strong case for reduction of land revenue and imposition of tax on agricultural incomes. These are only a few suggestions. Several other reforms can be introduced to achieve the same purpose. The Budget proposals for 1946-47 reflect a change for the better in this respect. Sir Archibald Rowlands refuted the charge that it was a rich man's budget. He pointed out that whereas before the war the direct tax payer paid 23 per cent. under the new proposals he would pay 55 per cent. The moderately prosperous would now pay more than half of their income and the rich man would pay practically 90 per cent.

INDIAN PUBLIC DEBT

24. Nature of Public Debt: India occupies a very happy position so far as her public debt is concerned, because most of her public debt is productive and yields a large revenue, much larger than the interest charges. In 1914, interest charges amounted to £9½ million while the return was £15¼ million.² The bulk of her debt is invested in solid and lucrative assets like railways and irrigation works or is lent out to Indian Provinces and States. Thus the capital outlay on railways up to 31st March 1946 accounts for no less than Rs. 797 crores, on Posts and

1. Jathar and Beri—Indian Economics, Vol. II, p. 54.

2. Kale, V. G.—India's National Finance Since 1921. (1932, p. 60).

Telegraphs and other Commercial Departments Rs. 42 crores, Loans and Advances Rs. 144 crores and cash and Investments Rs. 547 crores, making a total of Rs. 1,530 crores. The thus of total interest-bearing obligations of Rs. 2,159 crores only Rs. 629 crores represent uncovered debt. Even this may not be called wholly unproductive for the defence capital outlay and capital property is not without value. The ex-Indian financial authorities outlay on central deserve to be congratulated on the prudent manner in which this side of the public finance has been handled.

25. The Increase in Public Debt : The volume of public debt was only £7 millions in 1792. But the wars that the East India Company waged for conquering and consolidating the British Empire in India meant an increase of debt. On the eve of the Mutiny of 1857 it stood at £60 millions; the cost of the Mutiny raised it to £100 millions in 1860. The debt of the East India Company was inherited by the present Indian Government when the authority passed from the Company to the Crown. The East India Company had also to be paid dividends till the company's stock was liquidated in 1874. Most of the debt was unproductive; but since the Crown had assumed the authority, there was a steady increase in productive debt due to the launching of irrigation and railway schemes. In 1900 the amount of the total debt was £200 millions of which £50 millions was unproductive. In the pre-war years, Government made vigorous attempts to cut down the amount of unproductive debt through the manipulation of merely an accounting transaction. The surplus revenue was utilized in public works; but it was first supposed to be a repayment of the ordinary or unproductive debt and then re-lent for public works schemes. Thus each surplus utilized for public works increased the productive debt; but it at the same time decreased correspondingly the unproductive debt. The result was that in 1914 the unproductive debt was reduced to a small figure of Rs. 3 crores. The unproductive debt would have been extinguished altogether in this way in a few years had not the War of 1914-18 come in with a heavy load of the unproductive debt. War gift of £100 millions to the British Government and recurring deficits in post-war years added to our debt. The amount of unproductive debt in one decade rose to Rs. 258 crores in 1924, the productive debt rose from Rs. 400 crores to Rs. 700 crores during the same period.¹ Mr. Gokhale was a strong critic of this policy of reducing the unproductive debt. In his opinion, there was no need for such unseemly

1. Datta B. P.—Economic Problems of Modern India, edited by Radhas Kamal Mukerjee, 1941, pp. 478-479.

haste, for the amount of the unproductive debt was not large. It would have been better to utilize the revenue surpluses either in giving relief to the tax-payer in the form of lowering or remission of taxes or in extending the scope of beneficent activities like education, public health etc.

The following figures show how our debt position has changed during the war :—

	31st March, 1945	31st March 1946
Sterling Loans and Railway Annuities	Rs. 445 crores	Rs. 39 crores
Rupee Loans and Treasury Bills	Rs. 484 crores	Rs. 1571 crores
Unfunded debt (Cash Certificates, Provident Funds and Savings Bank Deposits)	Rs. 229 crores	Rs. 320 crores
Total	Rs. 1,158 crores	Rs. 1,930 crores

26. External Element in the Public Debt : There is one aspect of the public debt to which we cannot help referring. A very large proportion of our public debt was external. External debt is a dead weight on the country, whereas internal debt merely involves a redistribution of wealth within the country. Interest paid on foreign loans goes out of the country and is a clear loss. The extent of our foreign obligations was estimated by Dr. Keynes in 1908 to be £356 millions. Dr. Dubey in 1930 put it at £600 millions¹ and B. Ramchandra in 1934 at £612 millions.² Bulk of sterling capital is, of course, held by foreigners ; but they also hold nearly one-half of the rupee debt. Though the rupee debt is only issued in India, it is not necessarily held by the Indians. It is estimated that Rs. 15 crores go out every year in interest payment. Profits on foreign capital amount to £16 millions every year.³

These transactions are likely to evoke adverse comments on our relationship with England. It is, therefore, very gratifying that our sterling obligations have now been wiped out, on account of our financial transactions during the World War II to which reference is made below. The War has proved a blessing in disguise. Our financial authorities had a very poor opinion about the Indian money market till the War (1914-18) when success of war loans gave them a very agreeable surprise. Up to the last War, whenever the Government of India wanted money, it invariably approached the London Money Market. The rates offered were sometimes unduly high. Since then they

1. Dubey—Indian Public Debt, 1930, p. 3.

2. India Analysed, Vol. II, p. 87.

3. Rangaswamy Aiyangar—Some Trends of Modern Public Finance, 1936.

have resorted more and more to the Indian Market which has proved cheaper. There was another objection to foreign loans. The foreign investors have always clamoured for safeguards and impeded constitutional development in India.

27. Funded (Permanent) and Floating Debt.—About 90 per cent. of India's debt is Funded or permanent debt. During the first War (1914-18) an innovation was introduced. Treasury Bills were issued. They are repayable generally after three months. But fresh issues are made when the old issue matures. So although it is technically a floating debt, it is really permanent. Treasury Bill now form a very important feature of Indian finance. The Treasury Bills in 1940-41 stood at Rs. 39.30 crores. Such a large amount of floating debt may prove a source of embarrassment to Governments.

28. Debt Redemption : Till recently the Finance Department in India had no deliberate and systematic plan for the redemption of debt. Some sort of sinking fund for the purpose is always desirable not merely because it is better to repay debts, but also because contributions to sinking fund evenly spread out the burden of debt over future generations. It is also necessary for the maintenance and improvement of the credit of the country.

Lord Wellesley in 1798 experimented with a sinking fund, but the scheme was continued only for a decade. The Government of India did make some haphazard attempts in the direction of reduction or avoidance of debt. Obligations arising out of the purchase of railways were met by a compulsory scheme of annuities and railway sinking funds were used for the purpose. The annual Famine Insurance Grant was also sometimes utilized for the reduction of debt. Reference has already been made to the utilization of revenue surpluses, for the reduction of ordinary debt. A sinking fund was created in 1917 when £500,000 were proposed to be set aside every year and also 1½ per cent. of the loan for the purchase and cancellation of securities.

But the credit of having introduced the first systematic and comprehensive scheme for regular debt redemption belongs to Sir Basil Blacket. He proposed setting aside every year Rs. 4 crores plus 1/80th of the excess of the debts outstanding at the end of each year over that outstanding on 31st March 1923. In 1933-34, when the railways on account of loss of income ceased making any contribution to the general revenues, the Blacket scheme was suspended and provision for reduction of debt was

reduced to Rs. 3 crores. As the debt is mainly on account of the railways, it was considered fair to stop provision for redeeming it when the railways made no contribution to the general revenues. The railways have, however, resumed contributions; but the provision for reduction of debt still continues to be Rs. 3 crores every year.

Postal Savings and Postal Cash Certificates are also obligations of the Governments of India and Pakistan. Formerly they were considered to be repaid out of inflow and no regular provision was made for their repayment. Since 1930, however, the actual accruing liability for the postal cash certificates has come to be regularly provided for.

It must be said that our debt redemption arrangements are still far from scientific. In other countries there are commissioners for public debt who constantly keep their hand on the pulse of the money market, so that they may be able to choose the best time for fresh issues or for conversion plans. They dovetail properly all the loans and plan out harmoniously the redemption of the various issues. We should also have a similar organisation.

29. Effects of World War II on Public Debt: Such a gigantic war as the one that has just ended could not leave the finances of a country unaffected. The Government of India had to resort to loan operations in order to prosecute the war and maintain her war effort at the requisite level. Among the several loan issues may be mentioned 3 per cent. Six-Year Defence Bonds issued in June 1940, Ten-Year Defence Savings Certificates and Interest-free Bonds, and second 3 per cent. Defence Loan of longer duration issued in February, 1941, to replace 3 per cent. Six-Year Defence Bonds. Besides these loan issues, Defence Savings Provident Fund was instituted for all Government servants and also Postal Defence Savings Bank Account giving 1 per cent. more interest than the ordinary Savings Bank Account. In 1945-46, the borrowing programme was further extended by the issue of 3 per cent. loan 1953-55, 3 per cent. First Victory Loan 1957, re-issue of 2½ per cent. 1948-52 and 3 per cent. Funding loan 1966-68. The investment in Government loans resulted in the withdrawal of redundant purchasing power from the public. This reduced the pressure on the prices of consumable goods and loan enabled the Government to build up reserves for development purposes. The progressive total of public loans issued since the beginning of the war up to the end of January, 1946 amounted to Rs. 1,173 crores.

REDEMPTION AND REPATRIATION

Redemption and Repatriation of India's Sterling Debt.—The biggest surprise that has come to us from the war (1939-45) is that our long-standing foreign debt has been after all practically wiped out. Our debt to England has been reduced to a vanishing point, so that in 1941-42 instead of paying anything we expected a refund of £26 million. Funded debt of India in Great Britain which stood before the war at £300,000,000 has been wiped out. The total amount of repatriation of sterling debt up to February 29, 1944 was £350 millions. The railway annuities and debenture stock will be liquidated in 1956 if not repatriated before. That the character of public debt in India has undergone a significant change is clear from the fact that it is now nearly all of it in the form of rupee debt. India finds herself in entirely a novel situation. In 1938-39 the public debt was Rs. 395.50 crores and by 1945-46 it came down to barely Rs. 14 crores.

Year	Rupee Debt.	Sterling Debt.
1938-39	737	469
1945-46	2143	38

But how has this miracle been accomplished? It is simply due to this, that during the war India has put others more under obligations and had not much occasion of incurring fresh obligations herself. Her balance of trade was markedly favourable; she sold more than she purchased from outside; she has sent large quantities of military supplies to His Majesty's Government; she has been incurring expenditure on behalf of the Allies; she had to recover a portion of war expenditure from British Government. She also received a substantial amount towards the cost of modernization of the equipment for Indian army. All these factors have cumulatively turned the scales in favour of India. India has accumulated sterling balances which stood at £1330 million on March 31, 1946.

But this new situation is fraught with serious problems. It will be necessary to husband these resources and not to fritter them away.

Indo-Pak credit has always stood high. We have been honest debtors, never delaying or defaulting. We got better terms than many European countries in the London Money Market. But this new development has immeasurably strengthened our financial structure and our credit is at the zenith.

PROVINCIAL FINANCE

30. Provincial heads of Revenue: The chief heads of revenue for the Provincial Governments are given and discussed as follows.

31. Land Revenue: Land revenue has occupied a very prominent position in the Indian tax system. Next to customs it was the most important source of revenue, bringing Rs. 34 crores a year.

But the Indian land revenue system is full of anomalies. A non-agriculturist, earning less than Rs. 2,000 a year, is not taxed; but even the poorest peasant, hardly earning enough to support himself and his family for a few months in the year, has to pay land revenue. The U.P. Banking Enquiry Committee considered 30 per cent. of holdings to be uneconomic and another 52 per cent. just on the margin. Obviously the Government cannot afford to incur a huge loss of revenue by freeing 82 per cent. of the holdings. Exemption of uneconomic holdings will encourage further fractionalization. Besides, it is difficult to fix on any objective test of an economic holding; it will vary from Province to Province. There are scores of other administrative difficulties. And yet some way must be found to give relief to the peasant who is the poorest and most heavily taxed in the world.

The land revenue demand forms a certain percentage of 'net assets' but there are wide Provincial variations in this respect and also in the terms of settlement. It varies to the extent of 28 per cent. between Province and Province and 300—400 per cent. if viewed in relation to the Provincial population.¹ 'Its proportion to rent ranges from 50 to 20 per cent. in U.P., 42 to 7 per cent. in C.P. and 100 to 10 per cent. in Madras.'² The greatest of all anomalies arises from the permanent settlement of Bengal by which the State has surrendered in perpetuity its share in incremental values. The rigidity of the land revenue arises from the fact that it is fixed for a long period. This defect has been overcome in the Punjab by the introduction of a sliding scale system. There is no doubt about this tax being regressive. As the agricultural interests dominate the Provincial legislatures, it is very likely that, given a favourable opportunity, land revenue will be reduced. The short-comings of land revenue have been thus summed up: "It is uncertain in incidence, incorrect in assessment and collection, uneconomic in its administration, unequal in its distribution and inelastic, and

1. C. N. Vakil—Fiscal Developments in British India, 1936, p. 371.

2. Rangaswamy Aiyangar—Some Modern Trends in Public Finance, 1936

far from benefiting the cultivator who pays the tax, it is prejudicial to the growth of capital and improvements in agriculture."¹

32. Irrigation : Water rate is in the nature of a tax. But there is no clear principle on which it is charged. The practice varies from Province to Province. Sometimes, as in Sind, it is mixed up with land revenue; in other cases different rates are charged for irrigated and unirrigated land. Water rate cannot be charged on the cost of service principle for then the rate will be different for each irrigation work, nor can it be charged on the benefit principle. There has to be a compromise. There are grounds for a generous treatment of the cultivator. It is wrong to think that a particular class benefits from irrigation works. They increase national income and taxable capacity; they save life in case of famine and obviate the necessity of remission and suspension of land revenue. Therefore they have to be considered from a broader social point of view. At present, the water charges are seldom revised; yet frequent revision is essential to suit the charge to the profitability or otherwise of agriculture. It will be better if irrigation finance is separated from the general Provincial finance, especially in a province like the Punjab and Sind where irrigation schemes occupy a very important place.

33. Excise : The excise revenue is derived from the duty on manufacture of alcoholic liquor, drugs, opium etc., and from licence fees from the vendors. The excise income in 1929-30 rose to an alarmingly high figure of Rs. 20,41,23,285. It was alarming because it indicated increase in the habit of drunkenness. In recent years the excise revenue has gone on decreasing or has remained stationary. In course of time, this source is sure to get dried up. It is the wish of every social reformer in Pakistan to see the evil of drink stamped out from the country. The Government has been trying to check consumption by moderately high duties which may not encourage illicit distillation. The Indian Ministers boldly launched the policy of selective and gradual prohibition. Total prohibition at one stroke seems to be beyond the pale of practical finance. Apart from a loss of revenue, it will mean increase in administrative expenditure in checking smuggling or illicit distillation. But through the reduction of shops, limitation in number of opening hours, restricting the supply, higher tax on stronger liquors and curtailment of other attractions in the shops and gradual extension of 'dry' areas the goal of prohibition can be realized. There is a deep-rooted sentiment in India against drink; every Indian Muslim is opposed

1. Narasimha Aiyangar—*Indian Journal of Economics*, VII (1927), p. 147

to it. Temperance propaganda and educating public opinion should go on side by side. But exclusive reliance on 'reform-from-within' principle will mean postponement of complete prohibition till Doomsday. Restrictive legislation is absolutely essential to hasten the approach to this very desirable goal, as in Pakistan.

34. Forests : Forests require a very liberal capital outlay for a long time before they can be made to yield handsome return. Money has to be almost lavishly spent on afforestation, protection and development of the means of transportation. Private enterprise cannot do it. But the State can well afford to do it and can patiently wait for the return, for it is not expected to discount future at a heavy rate. Frankly speaking, the expenditure on forests has been much less than what would seem necessary. The bulk of the revenue is derived from the sale of timber, fuel and other 'minor' produce and from fees on grazing. The gross revenue in 1939-40 was about Rs. 3 crores.

35. Stamps : Stamps are judicial and commercial, the former affixed on plaints and petitions and the latter on commercial transactions. There are some people who think judicial stamps are a tax on justice. But it should be borne in mind that in such cases, the administration has always to perform certain services to the litigant public. The decrease in the number of suits in consequence of the indebtedness legislation has adversely affected the revenue from stamps which in 1939-40 was about Rs. 10 crores in British India.

36. Registration : The registration fee is charged when documents relating to immovable property are registered. An increase in this revenue may mean economic distress compelling the people to alienate their property. It is a payment for ensuring a satisfactory record of the transaction and to prevent, or easily settle, any further dispute on the point. The total revenue was, however, very small, being nearly one crore in British India.

37. Scheduled Taxes : These are the taxes which the Provincial Governments were empowered to impose under the Reforms of 1919. e.g., taxes on betting, amusements, advertisements, succession duties and taxes on land put to non-agricultural uses.

38. Provincial Expenditure : Besides maintaining the administrative machinery, the Provincial Governments have to look to the social needs of the people and administer the nation-building departments like education, medical and health and agricultural and industrial development.

39. Critical review of Provincial Finance : We may again repeat that the Provincial Governments derive their revenues from sources, which are not likely to expand but are likely to diminish whereas the services they have to render require for their proper expansion and efficient administration increasingly large amounts. Between 1913 and 1929 land revenue increased by 7-1/2 per cent. only, income from excise remained almost stationary and stamp revenue fell substantially after 1925. Between 1923-24 and 1928-29, while the total Provincial expenditure increased by 22 per cent. the total Provincial revenue increased only by 4 per cent.¹ The burden of the land revenue is already oppressive and must be reduced, excise revenue must vanish some day, and the revenue from registration is negligible, forests require outlay for development. On the other hand, huge expense is necessary if in matters of education and public health, we have to be brought into line with other countries. The Simon Commission considered that expenditure on these two departments was very small and medical facilities were inadequate.

The Provincial sources of revenue are not only inadequate, considering Provincial requirements, but they are also inelastic and inflexible.

Besides, the burden of Provincial taxation is unequally distributed among the various classes of the community, the poor bearing the heaviest burden. The bulk of the land revenue and irrigation charges is contributed in the aggregate by the poor and so also is the bulk of the revenue from judicial stamps. In 1932 out of a total number of 2,711,306 civil suits, 302,230 were under Rs. 10 in value and of the total 67 per cent. were under Rs. 000². Registration fees, too, where land is concerned, fall on the poor. The better off urban classes do not contribute to the Provincial exchequer unless, of course, they indulge in drink and litigation. But they are the greatest beneficiaries from the activities of the Provincial Governments.

Moreover, the financial policy of the Provincial Governments was very conservative till the advent of Provincial Autonomy. They relied more on retrenchment than on development of revenues. Expenditure on forests was niggardly. No attempt was made to make the rich, landowning classes to bear the proper burden of taxation. Law and order swallowed the bulk of the revenues and the expenditure on social services was meagre. The

1. Ahmad, Z. A.—Public Revenue and Expenditure in India, 1938, pp. 5-6.

2. Ibid, p. 24

irrigation policy was motivated by profit so that either the poor peasants had to pay more or unprofitable works of protective nature were neglected.

At present land revenue dominates the Provincial finance. In Pakistan land revenue represents about 15 per cent. of the total revenue whereas in Great Britain in 1935-36, it was only £0.8 millions out of £824.8 millions of total revenue, in France 2.0 per cent. and in Italy 7 per cent.² The relief to the poor peasant of India is overdue. When taxes like sales tax and Central excises imposed for the benefit of the Provinces are developed, it may be possible to decrease too much dependence on land revenue.

40. Suggestions for Reforms in Provincial Finance: The following reforms in Provincial finance may be suggested:—

(i) As soon as possible, the Provinces should be handed over either their full share of income tax or the percentage of their share may be increased from 50 per cent. to 66-2/3 per cent. This will meet the ends of justice in case of industrial Provinces.

(ii) Land revenue should be progressively decreased in case of poor peasants so that after some time uneconomic holdings are altogether exempted.

(iii) Progressive taxes on agricultural incomes should be imposed without delay. It will make the broadest shoulders bear their proper burden and will enable relief to be afforded to the poor peasant. It will also rectify to some extent the regressive character of Provincial taxes.

(iv) A graduated succession duty or inheritance tax will also have the same effect and should be imposed at once.

(v) There should be a better co-ordination between Provincial and Local finances so that both units of administration are able to maintain standards of efficiency in the services entrusted to them.

(vi) The greatest need is to diversify the character of Provincial finance and decrease its unparalleled dependence on land taxes. This can be done by encouraging village industries and big industries in towns, so that there is a better balance between agriculture and industry. The development of trade and industry will open out new avenues of taxation.

(vii) In order to equalize tax burden, articles and services consumed by the rich should be made the target of new taxes.

1. Ahmad, Z. A.—Public Revenue and Expenditure in India, 1938, p. 33.

Taxes on trades and professions can be adjusted to the same end through a progressive scale of licence fees.

(viii) The timid policy of balancing the budgets somehow or other should be replaced by a bold policy of liberal expenditure on public works and other services calculated to develop human and material resources of Pakistan. It can be done by additional taxation or borrowing. This policy will pay in the long run. We are now in on vicious circle. We are economically backward and poor and cannot pay more taxes, so that the resources of the Provincial Governments are too limited to bring about economic development and consequent prosperity, and we remain poor. This vicious circle must be broken and it can be broken at one end only *viz.*, the state first spending money and developing the resources of the Province. There is now much scope for economy drive. We no longer suffer from constitutional limitations and can touch some higher posts or their emoluments as it does not look fair to lower those who are already low. We can only insist on wise expenditure so that the revenues are appropriated for the right purposes.

41. Finance under Provincial Autonomy: Provincial Autonomy was inaugurated in 1937. It is difficult to judge the effects and implications of the various financial measures taken by the Provincial Governments but it is possible to generalize roughly about the financial aspect of the working of Provincial Autonomy.

(i) In the first place we find that Provinces have made an honest attempt to balance their budgets. We might say on the whole that this is an era of balanced budgets. This is in conformity with conservative finance and it reflects on the cautious manner in which the new Ministries have been proceeding. But we should bear in mind that it is not desirable to make a fetish of balanced budgets if it circumscribes a really useful sphere of economic activity.

(ii) Another thing that we notice is the increase both in Provincial revenues and Provincial expenditure. Revenues of all Provinces increased from Rs. 8,258 lakhs in 1937-38 to Rs. 9,087 lakhs in 1940-41, and expenditure increased in the same period from Rs. 8,208 lakhs to Rs. 9,115 lakhs. This shows how seriously the Provincial ministries went about their business and tried to extend the sphere of their activities.

(iii) On the expenditure side, an increase under social services is particularly noteworthy. All Provincial Governments seemed

to be vying with each other in the development of their social services. Progress in the first three years of the Provincial Autonomy is said to be equal to that in the previous 15 years. The Government of India too earmarked and distributed a sum of Rs. 261 lakhs for welfare services. But the ratio of expenditure on social services to that on security (law and order) services was not satisfactory. In the U. P. and Assam security services cost 10 per cent. more than social services and in Bengal and C.P. 60 per cent. more. Only in Bombay and the Punjab the social services cost more than the security services. Expenditure on industries was only 1.5 per cent. of the total provincial expenditure.

(iv) During these years there was a vigorous search for new taxes. The Provincial Ministries seemed to be hungrily looking round for any new source of revenue. This was a natural consequence of their desire to develop social services and to bring about an economic development of the Provinces generally. In the Indian majority Provinces, where they had launched on the policy of prohibition, new sources of revenue had become an important necessity. The following new taxes were imposed :

Sales Tax has been levied in the Punjab, Bengal, Madras, and Assam.

Entertainment Tax had already been imposed in the Punjab (1936), Madras (1926), Bombay and Sind (1923), Bengal (1922) and then it was introduced in Bihar, U.P., and N.W.F.P.

Tax on Employment, Profession and Trades was imposed in U.P., Bengal, Madras, C.P.

Tax on Sales of Motor Spirit was imposed in C.P. and most of the other Provinces.

Tax on Urban Immovable Property was levied in Bombay and the Punjab.

Tax on the Consumption of Electrical Energy was levied in Bombay, Madras, Bengal, and the Punjab.

Tax on Tobacco in some form or another had been levied in Bombay, Bengal, Punjab, N.W.F.P., Madras and C.P.

Tax on Betting already existed in the three Provinces but was now introduced in U.P., Assam and Sind.

Tax on Agricultural Incomes was imposed in Bihar and Assam.

1. Vakil and Patel—Finance under Provincial Autonomy, 1940, pp. 52-70.

2. Ibid, p. 7.

Besides these new taxes, we may also mention the enhancement of stamp duties in Bombay, U.P., C.P., Bihar and Assam and court fees in U.P., C.P., and Bihar. In Madras, U.P., and N.W.F.P. steps were taken to get more money out of foreign liquor licences and permits and gallonage fees were imposed on private individuals importing foreign liquor.

It was only to be expected that some of these measures should evoke strong criticism or keen controversy. The sales tax in the Punjab, for example, led to a very strong and protracted agitation on the ground that it would be inequitable and would hamper trade. It was also pointed out that sales did not mean profit and that it would require elaborate account keeping and throw the business community at the mercy of his petty, unscrupulous sales inspectors.

The U.P. Employment tax was another controversial measure being very ambitious. It was a graduated tax and proposed to take away in some cases 10 per cent. of the salary of the tax payer. It was contended that it amounted to a double income tax. The Government of India Act, 1935, was amended by Parliament to make such a measure illegal and now the maximum amount that can be taxed is Rs. 50 per annum.

The Bombay Urban Immovable Property Act also raised an acute controversy.

The validity of some of the new measures was questioned in the Federal Court. It shows that the Central and Provincial spheres of taxation are not clearly marked out yet and the Provincial grouping may lead them astray into the path of the Central Government. Such experiences are the natural outcome of a new constitutional experiment.

(v) Lastly, we may mention that as a result of these measures, Provincial budgets have become diversified to some extent and in course of time these new developments may change to a marked extent the character of provincial finances in India and Pakistan.

42. Some Aspects of Recent Punjab Finance: Since the inauguration of Provincial Autonomy, famine or war had dominated Punjab finances. But from a study of the recent budgets we find that in spite of severe stress and strain, the Punjab finances show strength and stability. Famine caused a deficit in the two financial years 1938-39 and 1939-40. But since 1940-41 the Province has experienced unparalleled financial prosperity. The years following showed unprecedented surpluses and the surplus for 1944-45 amounted to Rs. 244 Lakhs. 'The face of heaven shone on the Punjab' to use Sir Manohar Lal's phrase.

The Punjab revenues have been expanding. They have been doubled since 1936-37. Decline in the stamp revenue has been arrested; enlarged cultivation and, the most important, rise in the price of agricultural produce, decrease in remissions and suspensions have increased land revenue to a record figure of Rs. 592 lakhs. Irrigation receipts have also increased on account of the increase in area under irrigation, increase in area under cotton and sugarcane on which a higher rate is levied and decrease in remissions under kheraba. The Irrigation Projects—Heveli, Thal, Western Jumna Canal Extension Scheme and Bhakra Dam continue to make some progress, although Mandi Electric Scheme is still running at a loss. But the most remarkable increase is under extraordinary receipts on account of the sale of under-developed agricultural land and the aggregate sum received during the year 1943-44 amounted to Rs. 576 lakhs. This amount if prudently kept intact will go to build up a strong financial foundation for our Province. It lies in reserve and can be utilized for meeting any exceptional calamity like famine or in any expenditure of a capital nature like irrigation schemes and schemes for agricultural and industrial developments. It can also be drawn upon in case of any unforeseen expenditure in the near future.

On the expenditure side the noteworthy feature is an increase under police and for beneficent departments. The police expenditure in 1937-38 stood at Rs. 1,23,25,000 and provision for 1943-44 was Rs. 2,12,40,000. The police swallowed up the biggest morsel of our revenues due to mutual distrust and hate amongst the communities in the Province or low state of social life wherein the thief, the dacoit and the murder flourished. This was due to the anxiety for the maintenance of internal security and order, lest the fortunes of the war should have any repercussions on the peace and tranquillity of the Province. The expenditure on the Beneficent Departments was Rs. 287 lakhs in the year immediately preceding the inauguration of Provincial Autonomy. But it has been increasing from year to year till the budgeted amount for 1945-46 stood at Rs. 599 lakhs, in spite of the calls of famine and war. Besides, special funds have been created: (1) a Special Development Fund which was created with Rs. 55 lakhs in 1937-38; additions were made every year and at the end of 1944-45 it stood at Rs. 198 lakhs. In all Rs. 116 crores will have been spent out of this by the end of 1946-47 leaving a balance of Rs. 82 lakhs. (2) Peasants' Welfare Fund which was created in 1941-42 with Rs. 30 lakhs and with yearly additions it now (1945-46) amounts to Rs. 260 lakhs. These funds can be utilized in

intensifying rural reconstruction activities to ameliorate the lot of the poor peasants and others living in the countryside. (3) Forest Reconstruction Fund was created in 1943-44 with Rs. 15 lakhs and similar amount was added in 1944-45. (4) Post-War Reconstruction was started in 1944-45 with Rs. 2 crores.

It may also be noted that the budgeting throughout seems to be very conservative and cautious. The expected deficits are generally converted into surpluses at the end of the year and the surpluses change into bigger surpluses. In 1936-37 the anticipated deficit of over Rs. 1 crore was converted into a surplus of Rs. 23 lakhs. A small surplus of Rs. 2 lakhs was estimated in 1937-38 and actually the surplus realised amounted to Rs. 32 lakhs. The Finance Department has been able to earn an income equal to its cost by carefully investing the funds in Treasury bills.

To conclude, the Punjab finances have been, on the whole, well-managed and have provided for peace in the Province, protection against air-raid precautions, relief to the poorly-paid employees, relief to the famine-stricken, built up reserves, increased the wealth of the Province through irrigation projects and ameliorated the lot of the rural population. But, frankly speaking, no appreciable effect had yet been produced in the Province at large. The Finance Minister in his budget speech in 1946 admitted that the existing provision of expenditure for medical relief, public health, education etc. was wholly inadequate by modern standards. This policy has to be continued in a larger measure over a number of years before tangible results can be expected.

43. Some Features of the Punjab Budget, 1946-47: The Finance Minister in his budget speech warned against the wartime artificial prosperity. When prices of agricultural and other goods come down the Provincial revenues are bound to shrink unless effective steps are taken to bring about industrial and agricultural prosperity so that existing sources of revenue may expand and new sources may be tapped. Agricultural yield will have to be increased to offset the adverse effect of fall in prices. More vigorous efforts will have to be made to develop the industries of the Province. In short, the wealth of the people will have to be increased in order to augment the Provincial revenues.

The estimated revenue for 1946-47 is Rs. 21,30 lakhs and the estimated expenditure Rs. 20,83 lakhs showing a surplus of Rs. 47 lakhs. The revised estimates for 1945-46 showed a surplus of Rs. 90 lakhs; this surplus would have stood at Rs. 140 lakhs but

for the transfer of Rs. 50 lakhs to the Peasants' Welfare Fund. Besides, Rs. 15 lakhs have been transferred to Forest Reconstruction Fund and Rs. 505 lakhs provided for Post-War Reconstruction.

On the revenue side, there is a drop of Rs. 73 lakhs undertaken on income due to the anticipated decrease in the divisible proceeds of income-tax. Land Revenue shows a drop of Rs. 24 lakhs due to inadequate rains in the winter for provision had to be made for suspension and remission of land revenue. There is also a fall of Rs. 11 and Rs. 20 lakhs respectively in Excise and Forests. Electricity receipts show an increase of Rs. 20 lakhs on account of the taking over of the Lahore Electric Supply Co. There is an increase of Rs. 13 lakhs in interest due to realisation of full interest on investments in securities.

In 1945-46 increased expenditure had to be incurred in view of the increase in rates of dearness allowance for Government servants costing Rs. 271 lakhs, revision of the rates of pay (Rs. 80 lakhs) and increased expenditure on Police (Rs. 15 lakhs). The estimates for 1946-47 show a drop of Rs. 40 lakhs spread over many heads. The noticeable increases were under Irrigation (Rs. 25 lakhs) and Police (Rs. 15 lakhs). Under Irrigation provisions has been made for the remodelling and extending of certain drains to afford relief to waterlogged tracts, as also for the remodelling, construction of distributaries and minors and for the Grow-More-Food campaign.

As compared with Rs. 287 lakhs provided for beneficent departments in 1936-37, it is now proposed to spend over Rs. 6 crores on these departments which will be spent in increasing educational, medical and public health facilities. Activities of the agriculture, veterinary and co-operative departments will be extended. More attention will be given to improve breeding, to increase rural reconstruction staff and that for anti-erosion scheme including reclamation of 'chos' and waste-lands and the organisation of forest societies. The Industries Department has been provided funds for several travelling demonstration parties for training handicrafts, grant of subsidies under the Punjab State Aid to Industries Act etc.

A special feature of the new budget was the large provision made for Post-War Development expenditure. The Post-War Schemes are estimated to cost Rs. 116 crores in the first five years. Some of these schemes are being launched in advance of the time fixed in order to counteract deflation and unemployment. In the current year (1945-46) the post-war development expenditure will

be Rs. 110 lakhs on capital and Rs. 17 lakhs on revenue account, whereas in the next year the corresponding figures will be Rs. 725 lakhs and Rs. 189 lakhs respectively. The productive expenditure amounting to 469 lakhs is being financed from loans from the Central Government as for revenue and unproductive capital expenditure, the Central Government has offered to make grants-in-aid equal to the expenditure actually incurred. Some of the important schemes include the Thal Project, the Western Jumna Canal Extension, Gurgaon Dams and Canal Projects, Bhakra Dam Project, the Rasul Hydro-electric Project designed to generate 22,000 kwt. of hydro-electric power : 120 tube wells are expected to be completed in the current year (1955-46) and 882 wells next year.

During the year 1944-46 a loan of Rs. 3 crores was raised for financing productive capital expenditure on irrigation and electricity schemes. The debt of the Province at the end of the year is estimated to stand at Rs. 2956 lakhs. During the year 1946-47 it is proposed to take a loan of Rs. 469 lakhs from the Central Government for financing Post-War Productive Schemes and the net debt at the end of 1946-47 is estimated to be Rs. 3386 lakhs. Against this debt our capital expenditure amounts to Rs. 66 crores. Of this Rs. 48 crores is on irrigation works alone which brings in a handsome return every year.

PUNJAB BUDGET ESTIMATES FOR 1946-47

Revenue Receipts		Expenditure	
	(000's Rs.)		(000's Rs.)
Taxes on income other than Corporation tax	1,57,12	Land Revenue	... 71,58
Net Land Revenue	3,31,94	Provincial Excise	... 16,73
Provincial Excise	2,88,63	Stamps	... 2,64
Stamps	1,23,39	Forests	... 88,71
Forests	96,10	Registration	... 1,41
Registration	21,95	Charges on account of Motor Vehicles Acts	... 5,99
Receipts under Motor Vehicles Acts	12,95	Other taxes and duties	12,03
Other taxes and duties	99,88	Interest on Irrigation Works	... 1,87,2
Total	11,31,96	Other Irrigation expenditure	... 46,87
Total Irrigation Receipts (net)	5,70,13	Debt Services—Interest	... -1,08,81
Total Interest on Debt Services	87,13	Appropriation for reduction or avoidance of debt	... 37,98
Total Civil Administration	39,95	Total Civil Administration	... 6,73,49
		Beneficent Departments	

Total Beneficent Departments — Education, Public Health, Agriculture, Veterinary Co-operation, Industries	...	...	—Total ...	6,00,64.
Civil Works	...	38 92	Civil Works, etc.—Total	2,43,48
Net Electricity Receipts	...	48,93	Miscellaneous—Total	2,02,56
Miscellaneous—Total	...	72,80	Extraordinary items—	
Miscellaneous Adjustments between Central and Provincial Governments	...	351	Post-War Reconstruction and Development	26,18
Total Revenue Receipts	21,29,73			
Extraordinary Receipts	4,53,65			
Total Revenue	...	25,83,38	Total Expenditure charged to Revenue	21,08,70
Total Public Debt	...	4,69,00	Total Capital Account not charged to Revenue	8,28,76
Total Unfunded Debt	...	57,04	Total Public Debt	35,08
Total Deposits and Advances	...	36,58,69	Total Unfunded Debt	34,01
Total Loans and Advances bearing interest	...	13,75	Total Deposits and Advances	37,18,02
Total Remittances	...	50,42,60	Total Loans and Advances	40,04
Total Provincial Receipts	...	1,18,24,46	Remittances	50,60,05
Opening Balance	...	65,06	Total Provincial Disbursements	1,18,24,66
Grand Total	1,18,89,52		Closing Balance	64,86
			Grand Total	1,18,89,52

44. The Effect of World War II on Provincial Finance :

Unlike the Central Finance, the Provincial Finance is not so much subject to external influences like war. In the case of the Central Government, Customs, Railway Earnings, Income Tax, etc., are bound to be affected by war. But the Provincial heads of revenue are not so affected. It is the Central Government which has to finance the war. Therefore the structure of Provincial Finance has not been much moulded by war conditions. Fresh taxation measures were passed, no doubt, during the war but they were dictated not so much by the war exigencies as by their own Provincial needs for the development of social functions. It does not mean that people have not suffered from the effects of the war, like food shortage, higher prices, scarcity or non-availability of certain necessary articles, curtailment of transport facilities and certain levies or contributions for war purposes. But the point is that no marked changes in the tax systems of Provinces have been made. Provinces had, however, to incur

expenditure on A. R. P., more expenditure on Police, on administrative measures of price control and for purchase of wheat and other articles.

During the war the revenues of almost all Provinces have increased. From under Rs. 85 crores in 1938-39, the total revenues of all provinces put together have gone up to Rs. 190 crores in 1945-46; the increase in Bombay, U. P., Madras and Bengal was over 200%. These revenues have largely increased on account of the share of income tax accruing to the Provinces. The yield of land revenue has also increased on account of higher agricultural prices. Increased demand for timber increased the yield from forests. Entertainment tax and that on Sales and Stamps have also registered an increase. It is simply the higher yield from the various sources which has increased the revenue and this is in no way due to the increase in taxation. The improvement in Sind is due to the sale of barrage lands and profits from trading. The provinces have followed a policy of maximum revenue and minimum expenditure.

Every province has been building up funds for post-war reconstruction. The Punjab had also built up a Peasants' Welfare Fund and a Special Development Fund.

We find, therefore, the World War II has considerably strengthened the financial position of the Provinces. Now that the war is over the expenditure will go up, whereas the revenues will drop.

LOCAL FINANCE

45. Introductory : The problems of local finance are analogous to those of Central and Provincial Finance. In each case, the authorities are anxious to raise the level of efficiency of the functions discharged by them and to develop their revenues for the purpose. Local finance, too, is expected to conform to the well-known canons of taxation, *viz.*, equality, economy, certainty, convenience, productivity and elasticity.

But there are some slight differences. There is a difference in the basis of assessment, immovable property being the main target of the local finance. In the national finance uniformity is essential and more important; whereas in the local finance there is a greater variety, because the tax must suit the local conditions. Moreover, the national finance pays more homage to the principle of equity, whereas the local finance places more emphasis on the benefit theory. Lastly, the local finance is of a much smaller magnitude.

Let us see whether local finance in India and Pakistan is equitable and adequate to the needs. Important units of our local self-government are the Municipalities and the District Boards.

46. Municipal Finance : The municipalities have to perform a number of functions both obligatory and optional. They must provide for sanitation and public health, paving and lighting of streets, maintenance of roads, supply of water, and educational institutions for primary and secondary education. They may also open public libraries, maintain museums, public parks, etc. For the performance of all these functions money is needed.

According to the Taxation Enquiry Committee, the municipal sources of revenue can be arranged under four heads—

- (i) *taxes on trade* like tolls, terminal taxes and octroi duty ;
- (ii) *taxes on property*, e.g., house-tax, tax on building sites ;
- (iii) *taxes on persons*, e.g., taxes on pilgrims, domestic servants, dogs and other animals and taxes on circumstances, professions, trades and callings.
- (iv) *Fees and Licences*—Fees are charged for certain specific services rendered, such as school fees, scavenging fees, water-supply, provision of markets and slaughter-houses, etc. The object of licences is also to regulate a certain activity, such as vehicle licences, and those for dangerous and offensive trade. Corporations and other bigger municipalities derive large income from public utility services such as supply of electricity or gas, bus or tram service or any other similar commercial undertakings. There were in 1939-40, 756 municipalities and to their total income of Rs. 44,31,42,168, rates and taxes contributed Rs. 13,71,43,374 and other sources Rs. 30,59,98,794. Incidence per head was Rs. 8-7-6.

Of these taxes under category (i), viz., octroi, tolls and terminal taxes are very objectionable. They hamper trade, are a source of great inconvenience, especially their system of refunds, and, above all, they are regressive, being indirect taxes, they press more heavily on the poor. There is also a lot of evasion on account of laxity of supervision. In short, the octroi duty offends against all canons of taxation. The Taxation Enquiry Committee suggested for its replacement by some sort of sales tax. In all other countries octroi duty has practically disappeared from local finance and tax on property has come to occupy a more important place. It is really regrettable that octroi duty with all its objectionable features still dominates the municipal finance in India and Pakistan.

47. Financing of District (Rural) Boards : Indo-Pak is land of villages and nine-tenths of her people live in rural areas. The District Boards which are supposed to look after the interests of these people must naturally be the most important unit of local self-government. But being not very vocal, they do not loom so large in public eye as the municipalities.

The District Boards are charged with the upkeep of roads, bridges, ferries, etc., maintenance of schools, dispensaries and other public health arrangements. Their most important source of revenue is Provincial rates or surcharge on land revenue collected along with land revenue by the Provincial Governments. The local boards have been administered by the District Boards given the discretion to levy these rates within. The local bodies have been certain maximum and minimum limits (6% per cent. to 12% per cent. of land revenue). They get some revenue from the civil works and other miscellaneous sources. The District Boards in the Punjab have imposed haisyat tax and profession tax. In 1939-40, there were 762 District Boards and their income was as follows:—Provincial rates Rs. 4,93,08,434, civil works Rs. 2,23,82,666, and other sources Rs. 9,53,95,705; total Rs. 16,70,86,205. Incidence per head was Re. 0-9-11.

The bulk of the District Board revenue is derived from the Provincial rates levied at a flat rate on the land revenue. Being not graduated and adjusted to the ability of the tax-payer, the Provincial rates violate the canons of equity. It is open to the same objections as the land revenue. We often take shelter under the maxim that 'an old tax is no tax.' It shows the same lack of elasticity as land revenue. The introduction of the sliding scale system of Land Revenue in the Punjab has made it a fluctuating source of income.

And then, the total revenue of all the District Boards in British India was only Rs. 17 crores. With this amount the District Boards were expected to provide education, hospitals, preventive measures against epidemics and then to build roads connecting all the 5,00,000 villages. There is no wonder that there are thousands of villages without a school, without a dispensary and without any road. The District Boards suffer from the paucity of funds. It will be necessary, therefore, to increase substantially Provincial grants, and, as the Taxation Enquiry Committee suggested, to standardize the land revenue at a low level leaving a wide margin for the District Boards to tap through a local cess. In recent years there has been a tendency either to increase the cess or, as in Madras, to add to the number of cesses. The local rate should also be made progressive.

48. Meagre Resources : Large power have devolved upon the local bodies as the outcome of recent constitutional changes in India. The range of functions which the local bodies are called upon to perform is indeed very wide and varied. The services like education, medical aid, sanitation, and improvement of means of communication, which we expect the Municipalities and District Boards to perform, are of great national importance. Considering all this and the area the number of people involved, the resources at the disposal of the local bodies in Pakistan must be unhesitatingly pronounced as extremely meagre. The total revenue of all the rural boards of British India in 1927-28 was less than £4 millions, but in England and Wales having not more than thirtieth of population of British India the amount raised by rates was £27 millions. Local rates of all kinds, rural and urban, produced in British India in 1927-28 about £12½ millions which is only a little more than the income from rates of the London County Council.¹ In 1931-32, the total expenditure of the local bodies formed only 11 per cent. of the total Central, Provincial and Local expenditure. The expenditure per head came only to Re. 1-1-0. What miraculous achievements can we expect from such paltry sum spent per head especially when it is to be distributed among the numerous items of local expenditure? England and Wales spent in 1929-30, 35 per cent. of the total expenditure on the local bodies which came to £10 17s. per head. In U. S. A. local expenditure was 55 per cent. and in Japan 50 per cent. of the total public expenditure.² Expenditure on various social services by the municipalities in the Punjab, amounted to Rs. 6-8-0 per head.³ With such a small expenditure, our local bodies cannot attain or maintain anything like modern standards of administration. This explains why cholera, bubonic plague and smallpox cases here exceed those in the rest of the world put together and that there is so much leakage and wastage in our education. Of those who join a school, not many reach the middle standard and those who leave the school, soon lapse into illiteracy.

Among the causes which are responsible for this stringency in the local finance may be mentioned, (i) the general poverty of the people and low taxable capacity; (ii) unwillingness of those who are rich to tax themselves; (iii) lack of courage on the part

1. Indian Statutory Commission Report, 1930, Vol. I p. 336.

2. Economic Problems of Modern India, 1941, edited by Radha Kamal Mukerjee, pp. 430-31.

3. Malhotra, D. K.—Finances of Local Bodies in the Punjab: Paper read at the 25th Indian Economic Conference.

of city fathers lest they should become unpopular and not be elected next time. This results in under-assessment or non-assessment of certain sources. Political pressure has prevented them from making a full use of their powers of taxation.

(iv) Lax supervision and inefficient administration resulting in evasion and accumulation of arrears. This fact has been noticed in the reports of the working of local bodies in almost all the Provinces.

(v) Extensive jurisdiction and sphere of work of the local bodies.

(vi) But the most fundamental cause is the wrong allocation of resources between the Central, the Provincial and the Local finance. In other countries land taxes are exclusively left to the local bodies but in India, the Provincial Governments had the land tax as their mainstay, because they have been deprived by the Central Government of their legitimate sources like the income-tax.

(vii) The recent taxes imposed by the Provincial Governments. e.g., Sales Tax and Immovable Property and Entertainment Tax have encroached upon the potential sources of local finance.

(viii) The local bodies unwisely launched schemes of education and medical relief beyond their means and this has landed them into financial difficulties so that their standards of service are poor and their employees are faced with newer and larger cuts in pay.

(ix) In the case of the Districts Boards, the disappearance of *Panchayats* consequent upon administrative centralization made them, on the one hand, unable to tax the people who can pay, and increased their responsibilities on the other. The *Panchayats* with their local knowledge are in a better position to tap the taxable capacity of the people.

These are some of the factors which account for the inadequacy of the resources of our local bodies and which prevent them from playing their due part in our national economy.

49. How to Improve the Resources of the Local Bodies :

We have seen how inadequacy of the resources of the local bodies hampers them from a proper and efficient discharge of their functions. We have also tried to account for their inadequacy. The main problem of the local bodies is to improve and develop their resources.

We must say at the outset that on account of the chronic poverty of the people, there are serious limitations in discovering new sources or levying fresh taxes. Something can be achieved by stiffening up the administrative machinery so as to ensure efficiency and integrity. Till the people and their representatives in the local bodies come to cultivate a sense of full civic responsibility, a strict control must be exercised by the Provincial Governments so that under-assessments, omission of assessments, accumulation of arrears or any negligence in extracting the utmost from the existing resources are not tolerated. The expenditure side, too, must be subjected to strict supervision so that extravagance, misappropriation or any improper use of the public money is rendered difficult. Efficiency and integrity in collection and prudence and economy in expenditure are the necessary complements of any system of public finance.

The Taxation Enquiry Committee made the following suggestions for the improvement of local finances :—

(i) Land revenue should be standardized at a low rate to leave a margin for local taxation.

(ii) The local bodies should be given a share out of Provincial Government's collection in ground rents and from an increase in the rates of non-agricultural lands.

(iii) A tax on advertisements should be levied by the municipalities.

(iv) Provincial Governments should allow a share out of entertainment and betting taxes to the local bodies.

(v) Taxes on circumstances, property and professions should be further amplified.

(vi) The Central Government should reduce import duty on cars and let the Provincial Governments levy a surcharge for the benefit of the local bodies.

(vii) The local bodies should levy a fee for the registration of marriages.

(viii) The Provincial Governments should subsidize certain services of national importance which are now performed by local bodies not merely to supplement their resources, but also ensure efficiency.

To these suggestions we may add :

(ix) Provincial Governments should surrender a big part or whole of the proceeds of motor vehicle taxation and allow a

share in new taxes like the Sales Tax, Immovable Property Tax and Entertainment Tax and a part of tax on agricultural incomes which should be imposed forthwith.

(x) The local bodies, especially the municipalities, should tap the hitherto utterly neglected source of productive undertakings of a commercial nature, e.g., monopoly of the sale of tobacco and of petrol, cinemas, public utility services like electricity, local transport services, sewage farms and sale of manure. All progressive municipalities in other countries have made a welcome increase in their resources by extending the sphere of municipal trading and enterprise. This is a very fruitful source of revenue and it is a pity that it has been neglected so far.

(xi) Another source which has been little tapped so far is that of a special assessment. If a property benefits from an improvement made by a municipality, e.g., a tarred road or an underground sewer, it is only fair that the owners should pay in proportion to the benefit conferred on their property. Special assessments are very widely used in U.S.A., the United Kingdom and on the Continent and there seems to be no reason why it should be neglected here. Perhaps the vested interests stand in the way. The control of an epidemic may be of general importance; but a dispensary, a reading-room, a park or a playground, benefits particular locality more and the beneficiaries should not hesitate to pay.

(xii) A very large portion of expenditure on education, medical relief, sanitation and public health and on the maintenance of big roads providing inter-district traffic should be borne by the Provincial Exchequer, because these things are of more than merely local importance.

(xiii) When all this is done, it will still be necessary for the Provincial Governments to give liberal grants or subventions.

(xiv) Borrowing should be resorted to more freely than is done hitherto, especially for financing municipal trading and enterprises and for making improvements which will benefit future generations.

The general impression is that the local bodies are themselves not honestly trying to help themselves and they generally rely on Provincial favours. They are not raising all the revenues that they can and do not get money's worth from the moneys they raise and spend. This must cease if local administration is to improve.

50. Critical Review of the Indian Financial System : No system of finance in the world can claim perfection : but the Indian system has more than its ordinary share of shortcomings. We shall consider its drawbacks from two points of view, *viz.*, (1) Defects in the system of taxation; and (2) defects in public expenditure.

51. Criticism of Indian Tax System : The Indian Tax system is haphazard and has not been scientifically planned to bring about a progressive development of revenues. It has been moulded by the exigencies of time, the main concern being to balance the budgets. Little attention seems to have been paid to the incidence of taxation and its effects on production and distribution in the country. Budgeting, as Sir Walter Layton would put it, has been 'tight fit' without any provision for unexpected and unforeseen expenditure which is, therefore, generally met by borrowing.

There is also an element of uncertainty in the Indian budgets, the two big factors upsetting the calculations being the monsoon and the exchange fluctuations. Besides, our resources are inadequate and inelastic.

Further, legislative control over finance is strictly limited, about 80 per cent. of the revenues being non-votable. This undermines willingness to pay taxes and hence the taxable capacity, and also the sense of responsibility in our legislators, besides making reforms look farcical.

Another characteristic of our tax system is our traditional conservatism. Taxes like the land revenue, salt and excise revenue, continue in spite of almost universal criticism.

We must also notice that, unlike other advanced countries, direct taxes in India play a secondary role, indirect taxes being the mainstay. In India direct taxes (excluding land revenue) account for only one-fifth of the total revenue whereas in England, they account for 60 per cent.¹ Income-tax yields only 8 per cent. of the total revenue; customs account for 23 per cent., whereas in Italy it is 7 per cent., in France 16 per cent. and in Germany 17 per cent.² This undeveloped state of direct taxation is one of the gravest defects of our tax system.

Another serious defect is the regressive character of our tax system. It offends against the canon of equity or equality of

1. Rangaswamy Aiyangar—Some Trends of Modern Public Finance, 1936, p. 203.

2. Ahmad, Z. A.—Public Revenue and Expenditure in India, 1938, p. 33.

sacrifice. It discriminates against the poor and in favour of the rich. Income-tax is the only tax paid by the rich and even here the progression at higher levels is not so steep as it ought to be. Land Revenue, Salt, Customs, Excise and even Railway Fares are in the aggregate contributed by the poor. Absence of Succession duty, tax on agricultural incomes, and on windfalls accentuates this regressive character. "A poor cultivator," remark the Indian Statutory Commission, "who not only pays to the state a substantial portion of income from land, but also bears the burden of the duties on sugar, kerosene oil and salt and other articles of general consumption seems to receive a very different treatment from the big zamindar . . . (whose) agricultural income is wholly exempt from income-tax.¹ Professional middle-classes and business community escape paying their due share with the big landlord. In the words of Prof. K. T. Shah, "Richer classes escape relatively with much lower burden, even though their ability to bear or evade such burdens is much greater, while the poorer classes who cannot escape from such burdens, have to bear the lion's share of the burden with less than lamb's capacity to shoulder them."² Introduction of protection had also the same effect.

Moreover, our tax system did, till very recently, not distinguish between earned and unearned income which again means a relative hardship to the actual worker and a preference for the idle rich.

Allocation between Central, Provincial and Local Finance is defective, so that first starves the second, and second in its turn starves the third.

52. Criticism of Public Expenditure : Public expenditure in India has been steadily growing. But there is nothing to be alarmed at this, provided the expenditure is wise and is calculated to develop the human and material resources of the country and it is here that our public expenditure is found wanting.

Public attention in India has always been focussed on the defence expenditure of the country, the objection being taken to the huge dimensions to which it has grown, to the foreign element in the army and the purpose for which it is kept. Army and Defence services are said to absorb about 25 per cent. of our total revenues, until a few years ago it was the highest in the world. In 1935-36, Indian expenditure on defence services was 24 per cent. of her total expenditure, in the United Kingdom 15

1. Vide Report, Vol I, 1930, pp. 334-335.

2. Shah, K. T.—Review of Indian Finance, 1927-1934, p. 6.

per cent., in France 16 per cent., in Germany 17 per cent. and in Italy 21 per cent.¹ Sir Walter Layton in his report says, "An outstanding feature of this summary (of the financial position) is the high proportion (26½ per cent.) which current expenditure on defence bears to the total expenditure of the Central Government—a higher proportion in fact than in any other country in the world . . . Security is, of course, essential if production is to develop; but it cannot be claimed for expenditure on defence either that it is mere redistribution of income or that it promotes productive efficiency. Again, 'her (India's) expenditure is between two and three times as great as that of the whole of the rest of the Empire outside Great Britain'.² India does not even seem to have benefited by the conditions of world security after the War (1914-18) and her defence expenditure continued mounting up even after allowing for the rise in prices.

The British element in the army happens to be very costly. The rate of British and Indian troops is 1:2. The cost of a British soldier, as compared with an Indian, has been put at 4:1, that of a British officer at 6:1. The total cost of the British element has been put at Rs. 13 crores a year.³

It is also contended that the Indian army is kept for Imperial purposes. Lord Esher's Committee in 1921 considered Indian army as a unit in Imperial Defence.

Indian public opinion objects to the keeping of such a standing army on a war footing in peace-times. If money is to be spared for more important schemes of social and economic development, the defence budget must be drastically cut down. Indianization of the army, introduction of compulsory military training for all Indian youths, cultivating good relations with the neighbours and sharing the advantages of the common defence system will enable the necessary reduction in our military budgets.

Another very objectionable feature of our public expenditure is the costly top-heavy civil administration. Our Civil Service is admittedly the costliest in the world.⁴ "The official salary . . .

1. Ahmad, Z. A.—Public Revenues and Expenditure in India, 1938, p. 48.

2. Indian Statutory Commission Report, Vol. II, pp. 216-217.

3. Rangaswamy Aiyangar—Some Trends in Modern Public Finance, 1936, p. 114.

4. Japan, whose per capita income is twice as large, pays the highest salary equivalent to Rs. 622 per month to the Prime Minister, other Ministers get equal to Rs. 374 per month. Governor-General of Korea gets Rs. 440; President of U.S.A. receives Rs. 17,062 as against Rs. 21,333 paid to the Governor-General here. The British Prime Minister gets Rs. 11,111; the Canadian Prime Minister Rs. 3,375. (Z. A. Ahmed—Public Revenues and Expenditure of India, 1938, pp. 52-53.)

without reckoning allowances or other advantages averages Rs. 3,000 per month as against corresponding average of Rs. 1,000 per month in the United Kingdom.¹ A poor country like India could ill afford to pay such high salaries. Indianization has not been helpful in this direction; for Indians have also been given the same salaries as Englishmen. These high levels must be considerably scaled down. The highest salary in India that, in our opinion, corresponds to our per capita income may be put at Rs. 1,000 per mensem. The salaries at the other end are too low. A salary of Rs. 15 or Rs. 20 is a mere joke. Mr. Anthony, representative of the Anglo-Indian community in the Central Assembly, described, in the course of the famine debate held in November, 1943, Indian administrative machinery as unbalanced, "which, at the top, is over-paid and mentally famished and at the bottom is under-paid and morally famished." The minimum salary should be at least Rs 50 p.m. The gulf between the high and the low must be bridged as much as possible. We shall have to frame our own scales of salaries. It has also to be borne in mind that when the foreign element in our Services retires, their experience is lost to us and pensions are spent in a foreign country.

The debt services cut off another big slice out of our revenues. When it happened to be an external debt, it was a dead loss. Fortunately, we have paid all our foreign debts now.

The net result of high military expenditure and top-heavy administration is that the bulk of our revenues are consumed merely in running the Governmental machinery and not much is left for beneficent activities, so that economic and social developments are impeded. It is said that in India only 12 per cent. is spent on nation-building departments and 88 per cent. on running the Government.² In the words of Sir Walter Layton, "she (India) is incurring expenditure on the primary functions of Government, such as defence and the maintenance of law and order, as high in proportion to her wealth as Western nations. Her expenditure on social services, such as education, health, sanitation, etc., on the other hand, is far behind Western standards, and, indeed, in many directions is almost non-existent." Again, "it should be possible to stimulate production and increase the welfare of the people by public expenditure designed to give greater economic security (by irrigation works, improved and more varied methods of cultivation, etc.), better physical well-being (sanitation, water supply, improved public

1. K. T. Shah—Review of Indian Finance, 1927-34, p. 16 (footnote)

2. Malani and Soni—Indian Economics, 1934, p. 609.

health, etc.) and education. Indeed, taxation may be the only practicable means of creating a better and more secure livelihood."¹ In 1935-36, law and order, including the military, absorbed 34 per cent. of our receipts.²

When so great a proportion of our receipts is absorbed by the elementary functions of the State, expenditure on social services must needs be very small. Our total expenditure on education (Central, Provincial and Local) came to 9 annas per head in 1934-35, as against Rs. 19 in the United Kingdom and Rs. 55 in U.S.A. Expenditure on medical aid and on agricultural and industrial development is equally small. Nothing is spent as yet on poor relief, social insurance like health and unemployment insurance and old-age pensions. Expenditure in 1935-36 per head on the various items is given below.³

Military Services	...	...	...	0	13	7
Police, Justice, Jails, Convict Settlements, etc.	...	...	...	0	7	11
Education	...	...	...	0	7	2
Medical	...	...	...	0	2	3
Public Health	...	...	...	0	0	11
Agriculture	...	...	...	0	1	7
Industries	...	...	...	0	0	6
Scientific Departments	...	...	...	0	0	5

These figures need no comment. Our State is frankly yet a 'Police State' and it has still to enter that era of social service in which other countries have travelled far. The bulk of our public expenditure is not incurred in such a manner as to bring about economic development of the people and improve their taxable capacity.

There is another aspect of our public expenditure to which we may also refer. The standards of service maintained by different Provinces widely diverge. The poorer Provinces which need the help of social services most, are not able to do much in the matter on account of the paucity of their funds. Their services are practically starved. Such a state of affairs is not conducive to a harmonious and all-round development of the country.

We may now conclude by saying that a modern State is not merely a tax-gathering agency and also one for merely maintaining peace and security. Ethical considerations must dominate our financial system. Equity in finance is a counterpart of democracy. Public finance should be designed as a means of social and

1. Indian Statutory Commission Report, Vol. I, pp. 207-208.

2. Ahmad, Z. A.—Public Revenues and Expenditure in India, in 1938, p. 53

3. Ibid., pp. 54-56.

economic reconstruction. Viewed in this light, our tax system needs overhauling and our public expenditure requires drastic changes. Reduction of land revenues, and water charges, reduction or abolition of salt tax, exemption of articles of necessities of life and mill stores from tariff and subjecting luxuries to a higher duty, disappearance of the excise revenue, taxation of agricultural incomes on a progressive scale, steepening of progression in higher levels of income-tax, lowering a bit of the minimum exemption limit and levying of succession duties and taxes on windfalls are some of the measures that must be taken sooner or later. But if of necessity the tax system continues to be regressive, at least public expenditure must set this balance right. As a matter of fact, we should, in the present circumstances, look more to changes in public expenditure to undo the maladjustments of our financial system. Only a heavy reduction in the military and civil administration expenditure can enable us to introduce an element of social justice in our financial system. Public expenditure should be so designed as to benefit the peasants, the factory workers and other poorer sections of the community more and more. At present everything is being done on a small scale. Shall we also not have our "Beveridge plan" to provide the Indo-Pakistan masses security from want and fear?

FINANCE UNDER THE CONSTITUTION, 1935

53. Financial Inquiries : A number of financial experts had to scratch their heads over the problem of Indian finance in post times. Sir Walter Layton, the Financial Assessor of the Simon Commission, conducted a very thorough investigation and recommended a scheme of reallocation of the resources between the Centre and the Provinces and also suggested some new sources of revenue. On account of stout opposition in India that the Simon Commission encountered, its report was a still-birth.

The Indian constitutional problem was re-examined in a series of Round Table Conferences held in London and there the discussion of the financial arrangements occupied an important place. The financial problem was discussed, and recommendations made successively by the Peel Committee in 1931, the Percy Committee in 1932, in the White Paper in 1933, and the Joint Parliamentary Committee in 1934. It was through the cumulative effect of this expert opinion that the Government of India Act finally laid down the distribution of resources between the Central Government and the Provincial Government.

54. Allocation of Resources under the 1985 Constitution : According to the 1935 Constitution, the following is the classification of respective resources of revenue :—

(a) *Federal Resources*.—Customs, Income-tax (other than on agricultural income), Corporation tax, Salt, Railways, Excise duty on tobacco and other goods manufactured in India (except alcoholic liquors and other narcotic drugs and medicinal and toilet preparations containing these things), Currency and Coinage, Posts, and Telegraphs, Telephone, Wireless and Broadcasting, Property tax (except on agricultural land), Succession duty (except on agricultural land), Stamp duties on negotiable instruments like cheques, bills of exchange, etc., letters of credit, insurance policies, proxies, etc., terminal taxes on goods and passengers carried by rail, taxes on fares and freights on the railways. All income from the railways to be received by the Federal Railway authority, and surplus profit to be shared with the Federal Government on a basis to be decided by the Federal Government. Till then the existing scheme will continue.

(b) *Provincial Resources*.—Land Revenue, Irrigation, Excise duties (on alcoholic liquor, opium and other narcotics and drugs, medicinal and toilet preparations containing alcoholic liquor), taxes on agricultural incomes; taxes on land, buildings, etc.; Succession duties on agricultural land; Capital tax; taxes on mineral rights; taxes on trade, professions, callings and employment; taxes on animals and beasts; cesses on goods entering a local area for sale or consumption; taxes on advertisements and sales of goods; taxes on luxuries, amusements, entertainments, gambling and betting, stamp, registration; taxes on goods and passengers carried on inland waterways; tolls; fees for services rendered.

The following taxes, however, will be levied and collected by the Federation but will be assigned to the Provinces :—

(i) Succession duty on property other than agricultural land; (ii) Stamp duty on cheques, bills, etc.; (iii) Terminal taxes on goods and passengers; (iv) Taxes on freights and fares.

The proceeds of the following taxes will be shared between the Federation and the Provinces :—

(i) Income tax (other than on agricultural income); (ii) Salt tax; (iii) Excise duty on tobacco and other goods manufactured in India except those in the Provincial list; (iv) Export duty with a special reference to jute export duty. But the Federal authority may not give away any share till its own financial position allows it.

55. Niemeyer Report: It was contemplated to investigate the matter again, on the eve of the introduction of Provincial Autonomy, to see what financial adjustments were found necessary for the success of the new constitutional experiments. Sir Otto Niemeyer was appointed in 1935 to conduct this inquiry. The chief problem was the sharing of income tax. It has already been pointed out that industrial Provinces like Bombay and Bengal had never reconciled themselves to income tax being appropriated by the Central Government and they had been always protesting against the injustice done to them under Meston Award. This injustice was realized and the Peel Committee in 1931 recognized the Provincial claim to a share of income tax. The Percy Committee in 1932 recommended the surrender of income tax to the Provinces and a reversion to a system of Provincial contributions to which the Provinces did not agree. In the White Paper it was provided that the Provinces could be given anything between 50 per cent. to 75 per cent. share of income tax. Provinces were also authorized to levy a surcharge not exceeding $12\frac{1}{2}$ per cent. The Joint Parliamentary Committee, however, did not agree to this surcharge for the sake of uniformity. But as the circumstances were not favourable, the Government of India Act, 1935, did not fix any percentage and the matter was left to be decided by an Order-in-Council. It was to take up this thread that Sir Otto Niemeyer arrived in India in January 1936.

Sir Otto Niemeyer went about his work in a statesmanlike manner. The solution that he suggested was no doctrinaire solution conforming to any ideal theory of public finance or based on absolute fiscal justice. He took a realistic view of the matter and gave a solution that, in the existing circumstances, was the best possible.

In making his recommendations he steadily kept two principles in view :—

(1) That the financial stability and credit of the Central Government is of primary importance and that in no case should the financial position of the Centre be undermined or jeopardized. Maintaining the solvency of the Central Government was his first concern ; and subject to this.

(2) He wished to recommend such financial aid to the Provinces that they may be adequately equipped at the start of the Provincial Autonomy and that they should have a reasonable working surplus. He did not consider it his business to do justice between Province and Province or redress Provincial inequalities

in any manner. His sole aim was to do away with the chronic deficits in certain Provinces and "to put the tottering Province on their legs." This he tried to achieve through cash subventions, subsidies and reduction or cancellation of debts owing by the Provinces, and by giving a share of income tax and jute export duty.

His main recommendations were :—

(i) *Annual cash subventions.*—U. P. Rs. 25 lakhs for 5 years; Assam Rs. 30 lakhs, Orissa Rs. 40 lakhs, N. W. F. P. Rs. 100 lakhs (subject to revision after 5 years) and Sind Rs. 105 lakhs to be gradually reduced after 10 years.

He recommended a total annual relief as under : Bengal Rs. 75 lakhs, Bihar Rs. 25 lakhs, C. P. Rs. 15 lakhs, Assam Rs. 45 lakhs, N. W. F. P. Rs. 110 lakhs, Orissa Rs. 50 lakhs, Sind Rs. 105 lakhs and U. P. Rs. 25 lakhs, extra recurring cost to the Central being Rs. 192 lakhs.

(ii) *Non-recurring Grants.*—Orissa was to get a further non-recurring grant of Rs. 19 lakhs and Sind Rs. 5 lakhs by six equal steps beginning from the sixth year after the inauguration of Provincial Autonomy.

(iii) The chief recommendation related to the distribution of the income tax. Out of an estimated yield of the income tax amounting to Rs. 12 crores nearly, the Provinces were to get finally only 50 per cent., i.e., Rs. 6 crores. But for the first five years, the Provinces would get nothing; then from the sixth year of Provincial Autonomy, the Provinces would get their full share by six equal steps. It was also provided that the Centre would not relinquish any share of income tax so long as the distributable sum remaining with it together with any contribution from the railways was less than Rs. 13 crores. In other words, the assignment of income tax was made contingent on railway contributions.

The total Provinces share (i.e., 50 per cent. of the total income tax) was to be divided among the Provinces as under : Madras 15 per cent., Bombay 20 per cent., Bengal 20 per cent., U. P. 15 per cent., Punjab 8 per cent., Bihar 10 per cent., C. P. 5 per cent., Assam 2 per cent., N. W. F. P. 1 per cent., Orissa 2 per cent. and Sind 2 per cent. There are several bases on which income tax could be divided among the Provinces, e.g., origin, residence and population. Sir Otto Niemeyer did not base his decision on any one of these. He made a compromise between these different bases.

(iv) *Debt Cancellation*.—The entire net debt of Bengal, Bihar, Assam, N. W. F. P. and Orissa was cancelled and in case of the C. P. deficit debt before 1936 and other debts before 1921 were cancelled.

(v) Another important recommendation related to the raising of the share of the jute export duty by $12\frac{1}{2}$ per cent., so that the jute-growing Provinces would get $2\frac{1}{2}$ per cent. instead of 50 per cent. as their share out of the jute export duty.

Sir Otto was called upon to reconcile many conflicting claims and it is not surprising that he did not satisfy all interests. Those who did not get any cash subvention naturally complained that their claim had been ignored and those who got it said they did not get enough. Madras and the Punjab complained that they had been penalized for carefully husbanding their resources and for living within their means and that the extravagant had been helped at the cost of the thrifty. Madras compared herself with Bombay and asked why Bombay should, with a smaller population, get 20 per cent. as against her 15 per cent; Orissa, with Rs 50 lakhs looked covetously at Rs. 105 lakhs of Sind; U. P. considered that the award was partial to Bengal, and so on. The award was attacked as unjust and arbitrary. But there are grounds to believe that the Provinces were not so dissatisfied as they seemed. They were protesting a little too much. The Niemeyer award may, on the whole, be considered satisfactory.

The conditions created by the war led to an amendment in February, 1940, of the Niemeyer formula about income tax assignments. The Central share for three years 1939-42 was fixed at Rs. $4\frac{1}{2}$ crores based on the average of the preceding three years. Under the old formula, the Provinces would have derived the benefit of larger railway earnings and larger income tax yield both of which are the outcome of war conditions. As the Central Government had to bear the brunt of the war, it was only fair that the benefit should go largely to the Centre. But it has been estimated that the Provinces were not losers under the new arrangement.

56. Concluding remarks on the financial arrangements embodied in the new Constitution, with special reference to Federal Finance: India was being prepared for a Federation, and the fiscal arrangements in the new constitution were made on federal lines. Both the Centre and the Provinces were given a measure of budgetary independence; financial powers had been separately assigned and the resources were definitely demarcated.

PRINCIPLES OF FEDERAL FINANCE

There are certain well-recognized requisites of federal finance. In the first place, the arrangements must ensure administrative economy. The possibility of evasion and fraud must be eliminated and the cost of assessment and collection must be reduced to the minimum. Therefore, some taxes must be levied and collected by the Federation, even though their proceeds are to go to the units. From this point of view, customs, corporation tax and property tax and certain excises must be centralized. Secondly, the fiscal arrangements must provide adequate funds to each unit not only for immediate needs, but for future development. Fiscal self-reliance must be guaranteed. The revenues must be capable of expansion. Thirdly, each must be autonomous in its own sphere. The distribution of administrative functions and the assignment of resources must harmonize and coincide, so that not only the resources should be adequate but, also, they should, administratively, fall naturally in their respective spheres. Only thus will an interference of the one into the sphere of the other and a dependence of one on the other be obviated; otherwise, autonomy will be a myth and federation a misnomer.

To fulfil these essentials of federal finance different proposals for allocation of resources between the federation and the Federating units have been put forward. Prof. Saligman has suggested five methods:¹

(i) Complete separation of resources; (ii) assessment by the Provinces and surcharges by the Federation; (iii) assessment by the Centre and additions by the States; (iv) division of yields; and (v) subventions from the Federal Government.

The ideal solution is a complete separation; but it is seldom that the resources so allocated will yield precisely the amounts needed by the respective governmental units. This clear-cut division is, therefore, not to be found anywhere. There was to be a compromise and the Indian arrangements do represent a compromise between several principles suggested.

Again, in theory, it is best to assign direct taxes to the units and indirect taxes to the Federation. But recent experience shows a divergence between theory and practice. As the Federations had to assume more and more functions, resort to direct taxes became unavoidable. In U.S.A. the Federal Government got the income tax in 1913, and in Australia, too, the Federal Government gets 60 per cent. out of income tax. Integration

1. See Vakil and Patil—Finance under Provincial Autonomy.

rather than separation seems to be the rule. It ensures uniformity and efficiency.

The general practice is to have three lists. (1) Exclusively Federal, (2) Exclusively Provincial, and (3) Concurrent. Subventions or subsidies from the Federation are also a general feature of Federal finance, and for this there are several reasons. The Provincial functions, being concerned with the promotion of public welfare, require increasingly large funds. Central subventions are also necessary to balance Provincial inequalities and as a means to transfer funds from rich to the poor areas as well as to ensure minimum standards of service.

Turning to our own arrangements, we might say that the whole thing is thrown at the mercy of the railways, because a distribution of income tax has been made to depend on the contribution from the railways. The Provinces have been asked to co-operate in the matter and this may mean interference with or dictation in their road programme.

We may also repeat that there is no provision for promoting welfare activities and ensuring of a civic minimum. Provincial Governments who are mainly responsible for such functions are handicapped by lack of funds. To introduce compulsory primary education only is estimated to cost Rs. 36 crores per year.¹ When the Central Government must have Rs. 50 crores for the Army and Rs. 10 crores for Services, there is no alternative for the Provinces but to starve. Ours has always been a hand-to-mouth budgeting, and the new arrangements, too, do not look beyond the immediate future.

Under the 1935 Constitution, Provinces cannot levy a surcharge on income tax, while the Central Government can. The White Paper did give this authority to Provinces, but it did not meet the approval of the Joint Parliamentary Committee. Had the Provinces been given this right, it would have imparted an element of elasticity to their finances which they so badly lack at present.

There is also a limited popular control at the Centre, and the Provincial Governments find their hands tied to some extent on the expenditure side, for they must continue to employ and pay at the rates fixed by the Secretary of State in London a certain number of "Imperial" Servicemen. This precludes them from remodelling the other services under their control.

1. Shafaat Ahmad—Federal Finance, 1939, p. 11.

In conclusion, we might say that our Central Governments, like other Federal Governments, must play an important role in initiating, guiding and co-ordinating schemes of social amelioration. We must bid goodbye to the ideas of dwindling and static functions of the Central Government and mutual exclusiveness of the Centre and the Provinces. For an effective utilization of our resources, it will, therefore, be necessary to have an inter-Provincial Finance Council for consultation and co-ordination.

CHAPTER XXIX

EFFECTS OF WAR ON INDIAN ECONOMY

1. Introduction : In the previous chapters we had occasion to refer to the effects of the present war on the various aspects of our economic life. In this chapter we intend to study this problem in greater detail and shall attempt to give a general picture of what the war has done to our economy as a whole.

A war may affect a country's economic life by directly destroying capital and human life and by disorganizing the whole system of production and distribution. This happens when the country itself is the theatre of war operations. From this direct calamity India has luckily been saved. The Bengal famine, however, has been calamity of this order and was a consequence of war conditions. Apart from this and a few Japanese air raids here and there, India has escaped the fate that has befallen countries like China, the Soviet Union, Poland, Italy, France and some others. War affected us mainly by (i) diverting our resources, human and material, from purposes of peace to purposes of war thus putting limitations on civilian consumption, (ii) cutting us off from certain countries with whom we had trade relations, (iii) leading to inflationary rise in prices on account of the peculiar method of financing purchases in India on behalf of the United Kingdom and the Allies, (iv) creating uncertainties about the future and thus encouraging speculation in various fields.

These fundamental factors have affected our agriculture, industry, trade, transport currency and prices. Let us take each of these separately for a brief study.

2. Prices During the War: Since prices are the greatest controlling factor in production and consumption let us take prices first. For about a decade prices in India, as well as elsewhere, were generally depressed due to the long economic depression which began in 1929. The outbreak of war in September 1939 brought about an upward tendency which was mainly speculative in character. Commodities could not have become scarce all of a sudden. After a few months prices began to come down and by the end of 1940 they were lower than in

December 1939. This is shown by the table below :—

Index Number of Wholesale Prices.

		August 1939 = 100.			
		Food and Tobacco.	Primary Commodities.	Manufactures.	General.
1939					
August	...	100	100	100	100
September	...	111	112	116	113
December	...	127	136	145	138
1940					
September	...	108	111	111	111
December	...	108	113	120	114

Prices started rising again with the advent of the year 1941. This was due to increased purchases of war essentials from the Indian market by the United Kingdom. More currency was put into circulation while goods, were leaving country. Production did not increase correspondingly. By the end of the year prices had attained a higher level than in December 1940, as indicated below :—

		Food and Tobacco.	Primary Commodities.	Manufactures.	General.
1941					
March	...	108	115	131	119
June	...	115	126	147	130
September	...	126	136	167	142
December	...	127	137	164	141

In December 1941 Japan joined the struggle on the side of the Axis. War was brought next door to India. The purchases in the Indian markets for war especially on behalf of His Majesty's Government increased all the more. As time went on more and more currency was issued by the Government in order to make these purchases. The payments were received by India in the form, not of commodities or gold, but in sterling in London. This increased our sterling balances which were kept as sterling securities in the Issue Department of the Reserve Bank of India. Against these assets notes were issued to finance the purchases above mentioned. This led to inflation in India as is indicated by the enormous rise in prices that took place during 1942 and

1944 as shown by the table below :—

	Food and Tobacco.	Primary Commodities	Manufactures.	General.
1942				
March	... 133	141	165	146
June	... 160	136	167	159
September	... 164	163	182	167
December	... 181	177	222	186
1943				
January	... 206	112	224	190
February	... 216	191	226	198
May	... 295	234	247	237
November	... 308	235	256	240
1944				
March	... 284	232	252	236
1945				
March	... ..	246	254	248

That the rise in prices has been due to a large extent to over issue of notes is indicated by the following table which show how the rise in prices has gone side by side with increase in note issue :—

	Notes in circulation Rs. crores.	Index of notes in circulation.	General Index of Prices.
1939 August	... 170	100	100
1940 June	... 237	139	110
1941 June	... 260	152	130
1942 June	... 439	257	159
1943 June	... 734	432	238
1944 June	... 932	547	240
1945 March	... 1,085	637	248

Thus the greatest expansion in note circulation took place during 1942 and 1944 and the greatest rise in prices also took place during the same period. Money in circulation increased not only on account of the issue of notes but rupee-coins also increased. By March 1945 over 200 crores worth of rupee coins and small coins had been added to the circulation.

Other factors that led to increase in prices especially of food stuffs we shall note presently.

3. Effects of High Prices : We may consider the effects of prices on the following classes of the Indian population :—

(i) The Agriculturists. (ii) The Industrialists. (iii) The Traders. (iv) The Wage-earners. (v) The middle-class salaried people.

(i) The Agriculturists. On the whole the agriculturists gained from high prices. This gain was greater for those who had greater surpluses to sell. Even to the smaller farmer some gain accrued because he could now pay his land revenue (which did not increase correspondingly) and his debt and interest on debt, by selling a smaller proportion of his produce than before. No doubt he had to pay more for his purchases of necessities of life like salt, cloth, iron, matches, etc., but on balance his gain was greater than the loss. Many agriculturists were able to get rid of their long-standing debts.

(ii) The industrialists gained enormously through high profits. But, on the other hand, it should not be forgotten that the Government took away a very large portion of the profits after a certain limit by way of Excess Profits Tax. Moreover, prices were controlled by the Government and cost of production also increased. But in spite of all these factors the industrialists are in a much more prosperous condition now than they were for a long time before the war.

(iii) The Trader. The traders of various kinds made big profits through speculation and black marketing, in addition to their legitimate gains as middlemen in times of rising prices. They were, however, adversely affected by Government measures of price control intensified during the later stages of the war.

(iv) and (v). The wage-earners and the salaried people suffered the most, especially those whose emoluments were fixed during the period of the last depression. Certain low paid employees received dearness allowances. But these allowances only very slightly compensated them for the enormous rise in the cost of living, which had gone up nearly four times.

4. Price Control : In order to save the people from the evil effects of high prices the Government instituted price controls of various essentials of life. Price of wheat was first controlled in December 1941 at Rs. 4 as. 6 a maund; later on this price was raised. In January 1943, the control had to be given up. Early in 1944 it was again introduced at Rs. 9 as. 8 per maund. A Food-grain Control Order was issued in May, 1942, in order to control supplies in addition to price.

A Textile Control Order was issued in June, 1943, to stabilize the price of cloth, especially of the cheaper varieties. Prices considered fair to dealers and consumers were fixed for 20,000 types of cotton cloth, which had to bear a stamp of price and quality from August, 1943 onwards. Dealers were given six months to

sell off old stocks and a similar period was fixed for new cloth. Control over woollen goods was also introduced.

The earlier control was effective mostly as regards military purchases. As far as the civilian population was concerned earlier attempts at price control failed. They only led to hoarding and creation of black markets. "Price control without control of supplies," in the words of Dr. Rao, "without a centrally directed policy, without checking the recurring weekly addition to the volume of currency, was bound to fail." Later measures of price control were more comprehensive and, therefore, met with greater success. The Government introduced rationing schemes of certain essentials of life like foodgrains, sugar and kerosene oil. At the same time control was extended to a large number of articles of daily use like drugs, cycles, toilet goods, etc.

5. War and Agriculture : When the war broke out Indian Agriculturist was suffering from several weaknesses and was not at all in a position to meet the emergency. These weaknesses were :—

(a) There was little scope for extensive cultivation. Between the two great Wars while population had increased by 27 per cent. area under cultivation had increased only by 2 per cent. from 206 million acres in 1920 to 210 million acres in 1939.

(b) Productivity per acre was at a standstill, if not actually declining. It was low compared with other countries. For instance, the outturn of rice per acre was 1,357 lbs. in India compared with 4,601 lbs. in Italy and 2,112 lbs. in Egypt.

(c) The various provinces were interdependent in matters of food. The Punjab, U. P., Sind, C. P. and Berar were surplus provinces, while Assam, Bengal, Bombay, Travancore Bihar, N.W.F.P. and Madras were deficit provinces. It was, therefore, necessary that transport facilities should remain available in order to feed the people of deficit provinces.

(d) India had started depending on foreign imports of food grains since the separation of Burma. She imported about 2 million tons of rice in 1939-40.

Even taking the total food available in the country Dr. Mukherjee had estimated a food deficiency of 12 per cent. in a normal year before the war.

(e) As regards raw materials (cotton, jute, oil seeds, etc.) India depended largely on foreign markets for the prosperity of their producers.

With the outbreak of the war and the consequent disturbances in the markets and the means of transport that it caused, India was faced with two great problems. (i) The problem of surpluses of agricultural raw materials. (ii) The problem of scarcity of food.

6. The Problem of Surpluses: Most of the European continental markets for India's raw produce disappeared following German victories in Europe. With the entry of Japan into the war in December 1941 that important customer of our cotton also disappeared from the field. Added to these were the shortage of shipping and insecurity on the seas. Our exports of raw jute, cotton and oil seeds fell seriously as shown below :—

	1939	1942-43
Raw Jute (1000 tons)	... 570	239
Raw cotton (1000 bales)	... 2,948	301
Oil-seeds (1000 tons)	... 849	511

An attempt was made to find markets in the U.S.A. to which country the Government deputed Dr. Gregory and Sir David Meek for this purpose. Their visit revealed small chances there. Internal demand was stimulated by the Government lowering their standard of specifications for cloth for the army in order to encourage the use of short-staple cotton. It was short-staple cotton that was in surplus production. Government also encouraged the cultivation of long-staple cotton as a substitute. Area under jute was reduced for the year 1941 and subsequent years. Better utilization of oil-seeds especially ground nuts was promoted by scientific research. The Government started a "Grow-More-Food campaign" with the double object of reducing production of non-food crops and increasing the production of food crops to meet the prevailing scarcity of food. These measures met the situation created by the surplus to a considerably degree.

7. Food Scarcity: The scarcity of food was caused by three sets of factors :—

(a) Decline in total supply due to lower production and stoppage of imports.

(b) Increase in demand, due to hoarding by producers, traders and consumers, in addition to greater consumption by people whose incomes had gone up during the war. Added to this were the purchases for the army inside and outside India and for some other exports.

(c) Difficulties of transport and defects of organization and Government policy which prevented the proper movements of foodstuffs to meet scarcity in deficit localities.

The worst effects of the scarcity were suffered by Bengal where a major famine developed during the year 1943 causing death of millions of people first by starvation and subsequently by epidemics. The Bengal Famine Commission has estimated this mortality at 15 lakhs of persons.

In July 1943 the Government of India appointed a committee (Foodgrains Policy Committee) to investigate the causes of the scarcity and to recommend measures.

The main recommendations of this Committee (which reported in September, 1943) were:—

(a) Exports of food to cease immmediately.

(b) Government to import 500,000 tons of foodgrains to build a Central Reserve and another 1,000,000 a year for current consumption.

(c) Grow-More-Food campaign to be encouraged by distribution of improved seed, utilization of nightsoil and town refuse as manure, encouragement of irrigation and drainage schemes, prevention of depletion of cattle, importation of tractors and other agricultural implements, supply of fuel and lubricating oil to agriculturists, etc.

(d) Improvement of procurement machinery. In order to encourage the cultivator to sell his produce and other goods should be sold to him.

(e) For more equitable distribution of food, rationing should be introduced and extended to all towns with population of one lakh and over.

(f) The principle of statutory price control (control of prices by law) should be extended.

(g) The Central Government should exercise more power in matters of price changes, allocation of supplies, management of Central Reserves, etc.

The Government accepted these recommendations and in subsequent years Government policy is guided along the above lines laid down by the committee. Export of food was prohibited. About 1,000,000 tons (not 1,500,000 tons as recommended by the committee) of foodgrains were imported during the first year after the report of the committee. Improvements were effected

in the procurement machinery. Price control was extended and better managed. Rationing of foodgrains was introduced in about 250 cities, with a population of about 40 millions.

8. War and Industry : War stimulated not only the industries that existed before the war but it also led to the establishment of a number of new kinds of industrial enterprises. The old large-scale industries that benefited from the war were iron and steel, jute, cotton, leather and tanning, woollen, chemicals, sugar, paper and cement. In addition the small and medium-size industries like those manufacturing glass, rubber goods, minor chemicals, stationery, buttons, cutlery, etc. and cottage industries like handloom weaving of cotton, wool and silk has greatly benefited from the war. Effects of war on individual industries have already been explained in a previous chapter.

Of the newly established industries may be mentioned the aluminium and the heavy chemical industries, the new branches of engineering industries including machine tools, aircraft and shipbuilding. Now over several manufacturing processes in connection with rolling of non-ferrous metals have developed.

Indian industries prospered because of (i) the great military demand for their products, (ii) the cessation of foreign competing imports and (iii) special help given by the Government to some of them by way of creating special facilities for industrial research and for training skilled labour. A Board of Scientific and Industrial Research was created in 1940 and in 1941; a separate Industrial Research Fund was established for financing its activities. In 1940 the Labour Department of the Government of India initiated the technical training scheme which trained over 50,000 young men as technicians. Some received training in England under the Bevin Scheme. As regards Government purchases the total value of orders handled by the Supply Department "increased from Rs. 85 crores in first 16 months of the war to Rs. 118 crores in 1941, Rs. 223 crores in 1942 and Rs. 142 crores for the first five months of 1943.¹

About 20,000 kinds of articles required by the modern army were now being made in India. India produced 100 per cent. of her war requirements and sent abroad large quantities of arms, ammunition, shells, rifles, sandbags, electric cables, road rolling plant, electric fans etc.

The following table gives some idea of the increase in production that took place in the case of certain industries

1. L. C. Jain : Indian Economy During the War, p. 30.

during the first four years of the war :—

	1938-39	1941-42	1943-44
Cotton manufactures (million lbs.)			
(excluding twist and yarn)	920.5	1093.5	1185.2
Cotton piecegoods (million yards)	4269.5	4493.5	4840.4
Jute manufactures (000s tons)	1221.5	1258.8	833.0
Paper (000s cwt.)	1183.9	1870.9	1327.0
Sugar (000s cwt.)	13404.0	18338.0	2122.0

Dr. Jain calculated in 1933 that 'taking the average of the last four years, sugar production increased by 60 per cent., iron and steel by 46 per cent., paper by 34 per cent. and cotton textiles by 10 per cent. but there was a small fall of 4 per cent. in jute.' He adds: "On the whole the increase in the industrial output during the last quinquennium was of the order of 30 per cent."

But in spite of all this, it was generally felt that the Government did not take full advantage of the opportunities offered by the war. They did not encourage in the country the establishment of heavy industry by facilitating import of machinery. The foundations of our industrial system still remain weak and the progress achieved under conditions of war is not likely to have permanent results from the point of view of industrialization of the country.

9. War and Foreign Trade : The war produced the following effects on our foreign trade :—

(i) As regards exports the influences at work were :—(a) Disappearance of enemy and enemy-occupied countries in Europe and the Far East from the list of our customers. (b) Prohibition of exports to certain neutral countries to avoid goods falling into the hands of the enemy. (c) Shortage of shipping and high freight and insurance charges. (d) Great demand for various kinds of war essentials on the part of the Government for theatres of war outside India. The net result was :—

Firstly. That in spite of war restrictions our exports expanded. The value of exports for the years 1938-39 was Rs. 162.8 crores and for the year 1942-43, 187.6 crores, and for 1943-44 it was 199.0 crores and for 1944-45, 211 crores. This was apart from exports on Government account the figures for which are not revealed.

Secondly. That a much larger proportion of the exports consisted of manufactured goods during the war than before the war. In 1938-39, 29.1 per cent. of the total exports consisted of manufactured articles, in 1942-43 this percentage went up to 50.8, and in 1943-44 to 52.8, the same in 1944-45.

Thirdly. There were changes in the direction of our export trade. Some important changes are given in the table below:—

Country	Per cent. Exported		
	1938-39	1942-43	1944-45
British Empire	58.6	67.0	64.4
Middle East	0.5	12.5	...
U.S.A.	8.4	14.7	22.0
Other foreign countries	37.5	5.8	...
	1000	1000	1000

Most of the 'other foreign countries' were enemy or enemy-occupied countries. Note the gain by U. S. A. and the Middle East countries (Turkey, Syria, Iraq, Iran, Arabia and Egypt).

If we look into individual export items we find that the greatest sufferers were: Oil-seeds, hides and skins, cotton and jute. They partly found new markets and partly they were utilized in increasing quantities by our expanding industries. For instance the expansion of the cotton textile industry led to greater demand for our cotton the main customer of which used to be Japan. The increasing orders of the Government for leather and leather goods created increased demand for hides and skins. The "Grow-More-Food campaign" of the Government also was expected to transfer some area from under the non-food export crops to food crops, though the results were not substantial.

(ii) As regards imports similar factors were at work. The disappearance of enemy and enemy-occupied countries as sources of our imports, restrictions imposed on certain kinds of imports in the interest of war, shortage of shipping, etc., all reduced the value of our imports considerably. In addition, stocks of goods were not available in Allied countries engaged in the production of the essentials of war. The result was a serious scarcity of goods especially of civilian use like paper, drugs and medicines, dyes, metalware, glassware, electrical goods, machinery and machine tools.

The net results were:—

1st. The total value of imports fell. The fall was from Rs. 152.3 crores in 1938-39 to Rs. 110.4 crores in 1942-43. The year 1943-44 showed a slight increase to Rs. 117.7 crores and 1944-45 a large increase to 201 crores.

2nd. In composition of imports the percentage share of raw material increased from 20.4 per cent. to 47.1% and of manufactured goods fell from 61% to 15% between the years 1938-39 and

1942-43 respectively. For 1943-44 the percentage of raw materials was 55% and of manufactures 38%. The figures for 1944-45 were 58% and 31% respectively.

3rd. The direction of imports also changed as shown by the table below :—

Countries	Percentage imported from		
	1938-39	1942-43	1944
British Empire	... 58.1	55.4	40.09
Middle East	... 2.3	24.0	..
U.S.A.	... 6.4	17.0	21.6
Other foreign countries	... 33.2	3.6	...
	100	100	100

Again notice the great importance attained by the Middle East countries and the U. S. A. at the expense of the "other foreign countries."

(iii) As regards our balance of trade it showed a great improvement during the war years as the following figures indicate :—

Years	Crores of rupees			
	Imports	Exports	Balance	
1938-39	... 152	163	+11	
1939-40	... 165	204	+39	
1940-41	... 157	187	+30	
1941-42	... 173	237	+64	
1942-43	... 110	187	+77	
1943-44	... 118	199	+80	
1944-45	... 201	211	+10	

10. Debt and Debt Repatriation : But the balance of account in our favour increased much more. To the balance of trade have to be added other net items in our favour like net export of treasures, sale-proceeds of silver in London, money paid by the British Government for purchases made in India on their behalf. These payments were received in London in the form of sterling by the Reserve Bank of India. These amounted to Rs. 2000 crores up to 31st March, 1945. About Rs. 637 crores were paid to British creditors to wipe off our sterling debt and some other commitments—loans raised by India in the past for various purposes of building railways, canals, etc. From a debtor country we became a creditor country in relation to Great Britain.

This, however, does not mean that our Public Debt has been wiped off. In fact our public debt has considerably increased

during the war. The foreign debt in the form of sterling has been paid off. Part of this debt has been converted into internal or Rupee debt (debt in the form of rupees owed mostly to people living in India). The total obligations in India thus increased from Rs. 709 crores to Rs. 1,609 crores between March 1939 and March 1945 an increase of Rs. 900 crores.

Our rupee debt increased because of the great expenditure on war incurred by the Government of India on India's behalf. Over and above what can be raised by taxation such expenditure was met by borrowing.

11. War and Transport : The war resulted in a great shortage of transport facilities especially for the civilian population. While demand for transport services increased the supply of such services in fact decreased. The great weakness of our transport services is that they depend upon foreign countries for their essential equipment. Locomotives, and wagons for railway, motor buses, motor cars and even petrol have to be imported. These imports fell off due to the reasons already considered. The position as regards railways was extremely bad. Locomotives, wagons and railway lines were taken out of the country in substantial quantities to the Middle East, repairing facilities were curtailed, freights and fares were raised. Due to pressure on the existing meagre services travelling became most inconvenient. The railways, however, made considerable profits during the war.

As regards road transport the import of lorries, buses, cars almost disappeared, as far as civilian needs were concerned. Most of the existing ones were requisitioned by the Government for military purposes. Then the shortage and rationing of petrol enormously reduced the possibilities of using what was available in civilian hands.

As regards coastal transport the position was even worse. The coastal trade was reduced due to the shortage of shipping and the unsafety of the eastern zones. The traffic from the western centres to Bengal which used to go *via* the sea was forced on the railways, thus increasing still more the pressure on them.

The lack of proper transport facilities was an important cause of the tragedy of the Bengal famine in 1943.

12. Conclusion : The war stimulated economic activity in all spheres in order to meet the needs created by this emergency. The new production drive, though not all in the direction best desired by the Indian people, did stimulate our industries, old and new. Civilian needs, as was natural, were starved, the people

had to suffer hardships due to high prices and scarce supplies. A redistribution of wealth resulted due to inflation and other exigencies of the war. How far the sacrifices of the people will result in any permanent benefit to Pakistan and India and how far the present industrial expansion will be a national asset in the long run will depend upon the post-war policies of our Governments in spheres of politics and economics—plans of such policies are already under consideration.

CHAPTER XXX

POST-WAR CONSTRUCTION

1. Post-War Construction or Reconstruction ? The plans for the economic development of India in the post-war period have been commonly called 'Post-war Reconstruction.'¹ This name is evidently a misnomer as reconstruction is the need of countries which have had to face a destruction of peace-time industry during the war as its direct result. In India, there has been no such destruction. On the contrary, the war has increased the tempo of economic activity. It has meant overtime working in established industries and a haphazard growth of some new ones the products of which were urgently required either for military purposes or for satisfying the needs of civil population starved through lack of foreign imports.

2. Need for Construction in India : The need for planning for the world as a whole is urgent. We need to devise a suitable pattern to refashion and remould the old ways not only to set the groggy world back on its legs but also to prevent future conflagrations of the kind of the two World Wars. The recent one was far more destructive than that one of 1914-18, which is still fresh in the memories of this generation and each successive one is bound to beat its predecessor in gruesomeness and havoc. The Church and the State have so far failed in the task of putting a stop to such conflagrations. It is possible, however, that the cure for the disease may be found by economists and business men sitting together and preparing an economic plan on the world scale. To make such a plan successful it is essential that every country of economic importance should pull its full weight. India cannot do so as long as she is a land of hunger, disease and misery.

"Due to dependency rule for generations the citizens of India are full of apathy, indifference and fatalism Their working calibre, both individually and in a collective capacity, has suffered grievously and their living conditions brought to the verge of disaster."² The standard of living is low and the vast

1. Sir M. Visvesvaraya—Reconstruction in Post-War India—a booklet published in 1944.

2. Sir M. Visvesvaraya's Address at the All-India Manufacturers' Organization.

majority of the population live in dire poverty. Appalling illiteracy, the menace of a rapidly growing population and ill-developed resources handicap us. Semi-starvation and a low vitality destroy the power of resistance. It is no wonder that famine and disease stalk the land at regular intervals. Our per capita income is very low. The following comparative figures are an index of our miserable poverty.

U. K.	1931	...	...	£76
U. S. A.	1931	...	...	£89
Germany	1925	...	...	£39
U. S. S. R.	1925	...	...	£10
Japan	1925	...	...	£14
Egypt	1938	...	...	£21
India	1931	...	...	£5

Even this, however, does not provide a true picture of the dreadful condition of the poorest classes whose consumption is next to nothing. The Bengal famine of 1943, and the present conditions (1946) which may develop into one of the worst famines in the history of India (unless adequate food supply is available from abroad) have proved the need for increasing the production of foodgrains in the country. In 1933 Sir John Megaw's report revealed that 'only 39 per cent. of the people could be said to be adequately nourished while 41 per cent. were poorly and as high a proportion as 10 per cent. were very badly nourished. Dr. Aykroyd too, speaking of India as a whole, more recently, says that. "there is no doubt that a high percentage of the population does not get enough to eat" and he places the proportion of the total population which is normally underfed, at as high a level as 30 per cent.

Further, there is not only the quantity of food supply that is deficient, but its composition is also unsatisfactory. The first report by the Interim Commission on Food and Agriculture says, "We now know that certain diseases, which affect an immense number of people, are caused solely by the failure to get enough of the right kind of food." The research into the science of nutrition has demonstrated beyond doubt that protective foods like milk, green vegetables, eggs and fruit are essential for the growth of health and efficiency of the human organism. India is not producing them on a sufficient scale. Hence the high rate of mortality.

The lowness of the per capita income is due to the lopsided development of Indian economy. Too much dependence on agri-

culture keeps the standard of living low. Gandhian economy will certainly remove unemployment but will never give the people an opportunity to enjoy a higher standard of living. For that, industrialisation of the country is essential. Only then can the Indian have any hope of better housing facilities, more clothing and adequate medical attention.

India is undeniably poor and disease-ridden. The masses are ignorant and illiterate. Hence the need for planning for what is called a "National Minimum" through ordered development is nowhere so urgent as in India.

3. Objective of Planning : Our objective, as other nations', is that "the citizen of democracy should be guaranteed *as of right*, enough to maintain him in health. He should be assured of a minimum standard of shelter, clothing and fuel. He should be given full and equal opportunities of education. He should have leisure and facilities for enjoying it. He should be secured against the risk of unemployment, ill-health and old age."¹ To achieve this we need a revolution in the methods of production. "The issue is not between *a* plan and *no* plan, it is between different kinds of plans."² A plan involves systematic effort to achieve ends laid down beforehand. It aims at the canalisation of effort to develop partially developed or undeveloped resources³. It means full employment for every one who seeks work. Freedom to serve and to earn is a citizen's birthright. It should, however, be remembered that although a given corporate plan is bound to work for the good of the majority, yet some measure of independence will have to be sacrificed to make it successful.

No conceivable plan can escape criticism at some points. A plan should aim at a just, peaceful, moral and intellectually progressive community with sufficient material wealth.

Every plan aims at producing commodities at minimum cost but it would not be complete unless it also aims at a correct balance between supply and demand, thus avoiding the extremes of over production and shortage.⁴ All thinking minds are keenly exercised over the problem of finding an antidote to the great ill of Indian poverty and to create a happier and more effective citizen. There has been a deluge of plans in India

1. Sir J. P. Srivastava—Aim of Post-War Reconstruction.

2. Lionel Robbins as quoted by P. S. Narayan Prasad in the Journal of Indian Economics for July 1944, p. 27.

3. Sir M. Visvesvaraya—Planned Economy for India 1937.

4. P. C. Jain, Industrial Problems of India—chapter on Planning.

recently. Like advertised medicines each claims to be the panacea for all economic ills. Four definite plans hold the field at the moment and demand consideration. They are :—

- (1) The Bombay Plan.
- (2) The People's Plan.
- (3) The Gandhian Plan.
- (4) The Government of India Plan.

4. Test for the Effectiveness of a Plan : The figures involved even in a modest plan to suit the needs of 389 million souls are bound to be immense. But that need not stun us into indifference. The plan itself should be scrutinized and subjected to a few simple tests :

- (1) Does it make for increased production on a sufficient scale ?
- (2) Does it bring about a more equitable distribution of wealth in the country ?
- (3) Are the methods of production conducive to greater individual liberty and enough leisure ?
- (4) Are the methods of financing the plan practicable and beneficial ?

Very useful and instructive conclusions would be arrived at if the three plans mentioned above are subjected to these tests.

5. The Bombay Plan :

The authors of this scheme aim at raising the standard of living in India to such an extent as to provide every Indian minimum requirements of human life, viz, a balanced diet, suitable and ample housing accommodation and a certain amount of clothing. It is also their aim to see that minimum standards of health and sanitation come to prevail in India. We have already noticed what a wide gulf divides India and the rest of the civilized world in matters like these. The scheme is a modest attempt in the direction of rectifying this situation. These aims the authors hope to achieve in the course of 15 years by doubling the per capita income which, allowing for the increase in population, would mean trebling of the present aggregate national income of the country. Under the scheme the income from industry is expected to increase by 500 per cent., that from agriculture 130 per cent., and from services 200 per cent. It will also incidentally establish a balanced economy in the country. Instead of industry, agriculture and services contributing 17 per

cent., 53 per cent., and 32 per cent. respectively to national income on the basis of 1931-32 figures, their contribution, after the execution of the plan, will be 35 per cent., 40 per cent. and 20 per cent. respectively.

The scheme may now be briefly summarized. It has fixed targets to be hit in the development of industry, agriculture, communications, education, health and housing. So far as industries are concerned the development of basic industries, like power, mining and metallurgy, engineering, chemicals, transport, etc., is considered of primary importance and attention is to be directed first to the development of these industries. But simultaneously steps have to be taken to develop industries for the production of consumer goods. These industries include cotton, silk and woollen textile industries, glass industry, leather goods industry, paper, tobacco, oil industries, etc. Free choice by the consumers is to be an essential feature. In view of our cheap man-power special importance is attached to the development of cottage and small-scale industries so that the necessity of purchasing and setting up expensive plant and machinery may be obviated. The output of all industries is to be increased fivefold.

The output of agricultural products is to be doubled. The scheme contemplates a redistribution of area under different crops according to the exigencies of international trade and the requirements of the domestic market. It is pointed out that agricultural progress will be out of the question unless the three main problems of agriculture, viz, uneconomic holdings, rural indebtedness and soil erosion, are satisfactorily solved. Co-operative farming is suggested to solve the problem of uneconomic holdings and afforestation is suggested to prevent soil erosion. It will also be necessary to increase the area under cultivation and to increase the yield per acre by means of better irrigation facilities, a scientific system of rotation of crops, use of better manures, seeds and implements. Model farms are proposed to be set up to demonstrate what can be achieved by scientific agriculture.

The increased volume of industrial and agricultural production will lead to a large movement of goods. To meet this increased traffic an expansion of the means of communication and transportation will be necessary. It is proposed to add 21,000 miles to the existing mileage, doubling the existing mileage of roads and to provide more harbours to stimulate coastal shipping.

• Alongside the development of agriculture, industry and communications, it is proposed to launch schemes for the provision of better facilities in education, medical aid and sanitation and housing. It is hoped to provide a balanced diet which is calculated to cost Rs. 65 per annum for a growing adult and not much less for a growing child, to see that every person gets 30 yards for clothing and a house to live in and to give each village a well-equipped dispensary and each town a hospital and a maternity hospital, besides special institutions for the treatment of tuberculosis, mental disorders, cancer, venereal diseases, etc. Each village is to have a school of its own and there is to be provision for secondary and higher education.

The total capital requirements of the plan have been put at Rs. 10,000 crores distributed as follows: Industry Rs. 4480 crores, agriculture Rs. 1240 crores, communication Rs. 940 crores, education Rs. 490 crores, health Rs. 450 crores, housing Rs. 2200 crores and miscellaneous Rs. 200 crores. It is proposed to meet this cost by various sources of finance, internal and external, which have been estimated as follows: Hoarded wealth Rs. 800 crores, sterling securities Rs. 1000 crores, balance of trade Rs. 600 crores, foreign borrowing Rs. 700 crores, savings of the people Rs. 4000 crores and Rs. 3400 crores to be created by borrowing against *ad hoc* securities from the Reserve Bank.

The plan is to be executed in three stages, each covering a period of five years. It really, therefore, consists of three five-year plans.

6. Criticism of the plan :

This, in brief, is the plan. It seems to have caught the imagination of the people and has evoked comments from economists and publicists both inside the country and outside it. Some of which are, of course, favourable and others unfavourable. Some of the objections put forward to the plan are :—

1. That it is authoritarian in character and will introduce a sort of economic dictatorship. But this is a false fear. The authors do not wish to impinge on the free choice by the consumers and there is no intention to crush freedom of enterprise. No doubt some regimentation is inevitable, but there is no reason why it should not have a democratic sanction.

2. That it is a big business plan, implying that a few big business men will come to control the resources of, and production in, the country. There is no evidence of such a fear in the explanations that the authors have given in this connection.

3. That capitalism will be strongly entrenched in the country. This criticism comes from the Radical Democratic Party which has prepared 'a People's Plan'. But there is room for State capitalism under the plan.

The plan does not give full details of the type of agricultural organisation it contemplates. It admits that "nowhere in India has the (Zamindari) system created, as was expected of it, a class of landlords willing to supply capital for the improvement of the land and the extension of cultivation." But the planners pin their faith on co-operative farming without depriving the owner of their rights. They should have boldly advocated the ryotwari system of peasant proprietors and a complete abolition of the landlords after paying off their claims on a fair basis.

This would also involve the fixing of a model size of the cultivated holding. The size may vary in different areas according to topographical and climatic conditions between two limits determined by working capacity and capital available to a peasant family.

5. That it is unsound to finance the plan by the 'created' money and that inflation is implicit in the scheme. This objection, coming from orthodox finance, need not deter us and we are inclined to agree with the authors that 'finance is merely a camp-follower' and we may subscribe to the dictum that 'what is physically possible is also financially possible'. As the created money is to be used to stimulate production, evils associated with inflation may be avoided.

6. That it runs counter to Mahatma Gandhi's ideal and that it will take the country headlong towards materialism. We have already made it clear that India cannot quit the goal of material prosperity to pursue spiritual ideals. We do not subscribe to the view that 'it is easier for a camel to pass through the eye of the needle than for a rich man to enter heaven!'

7. A minor objection relating to the details is that the costs of the plan have been estimated on the pre-war prices. But this is not a matter difficult of adjustment.

Thus we see that the plan has withstood the onslaughts well and it holds the field. The authors deserve congratulations on producing something big and practical. They are anxious to avoid the pitfalls and hardships which the Russians experienced in their big experiment as compared with which it may be described as modest. No doubt, there are difficulties. Also, the authors are fully conscious of its imperfections. We may remember their

warning that planning without tears is an impossibility. But there is nothing to beat it as a basis of discussion for post-war economy, if we are really to achieve something like human standards in our mode of living. The greatest obstacle to our mind is the political. It is the fundamental assumption of the plan that *it can only be carried out by a national government enjoying full confidence of the people*. We also like to emphasize that problems relating to the control of industry and that of distribution are of fundamental importance and must be settled before the scheme is launched. Shelving of the problems may defeat the objects of the plan. It is obvious that the standard of living cannot be raised merely by increasing the national income. Raising of the standard of living of the masses will depend upon the share they are able to secure out of the national income.

The second part of the plan tackles the problem of distribution which was ignored in the first part, and which naturally raised a storm of criticism.

No easy and limitless profits are envisaged. National requirements and not the profit motive will decide the industry to be started.

Further high profits will be absorbed by the state, thus making available funds for social services like education, medical treatment, etc. and subsidies for essential utility services. What is left of these profits in the hands of individuals will have to be reinvested in industry under effective rationing and price control system.¹ "Similar to these which are in force at present, under war conditions, but they will be better co-ordinated and more systematically administered."² There may be a difference of opinion regarding details in these matters, but everyone welcomes an enhanced income with increased production in all directions—industry as well as agriculture.

7. The British View.

The British press has been at great pains to prove the plan faulty and impracticable. The motive for this sweeping criticism is obvious. Britain is anxious not to lose the Indian market for her manufactures and consumer goods. Having lost a good part of her foreign markets to her better organized and more efficient rivals, U.S.A., Japan and Germany in pre-war times, she is keen to preserve the Indian market for herself as far as possible. The London *Economist* has no objection to seeing India improve her agriculture and cottage industries but its righteous indignation is

1. *Economics and Post-War India*, page 22: Dr. S. K. Muranjan.

2. *Plan—Vol. II*, page 31.

aroused at what it calls the exploitation of the poverty-stricken masses of India at the hands of the bloated Indian capitalist already guilty of making huge profits during the war years.

At the same time it is only fair to refer to the recent speech of Mr. L. S. Amery at the East India Economic Association. The Secretary of State for India was very positive in affirming that "the Government of the country only wants to see Indian industry developing to the fullest. The last thing industrialists of this country have in mind is the idea that the British export industry can best prosper by India being held back in the course of her industrial development." Mr. Amery has, however, to confess that there is a very strong feeling in India that Britain "or at any rate the industrialists of this country would wish to restrict the progress of Indian industry in the interests of British export trade." Mr. Amery thinks that this feeling is only a 'superstition' but one cannot run away from the fact that the so-called 'superstition' is based on the hard facts of free trade and Imperial Preference policies thrust on India when such policies did untold harm to Indian industrial interests. Mr. Amery, however, goes on to tell the British people in general and industrialists in particular, that "provided we do not think India must always buy what we have always sold her, but are prepared to sell things India needs, there will always be favourable openings for British trade to India and even more favourable opportunities for collaboration between British and Indian industrialists." These are excellent sentiments and no one will grudge such fresh openings to British trade, but unfortunately there have always been mental reservations when such speeches are made and past experience has taught India not to rule them out.

Another line of criticism of the Bombay Plan in England has been in regard to the provision of finance for its execution. It has been said that the figures given are not accurate. It should, however, be borne in mind that the authors themselves do not claim accuracy for them. It is admittedly a rough outline of vast figures, but a good deal of spade work has been done and the results arrived at are only tentative. Prof. Brij Narain too points his finger at the methods of finance advocated in the Plan. He would prefer prefinancing of output through an expansion of bank credit as in Germany. He believes that the provision of finance for new enterprises must be made "not by borrowing from the Reserve Bank against *ad hoc* securities, but by means of bills or bank bills. This involves the setting up of special institutions for the purpose of accepting bills on behalf of Government. A bill is self-liquidating : when it matures it is paid

off, or, when it has done its work, it disappears. It follows that there is less risk of inflation. This is not the case with additions to the note circulation.”¹ Inflation is to be guarded against as far as possible. The wage-earners, the salaried classes, and the smaller agriculturists with no surplus to sell, all suffer as a result of inflation. Prices have the knack of always running ahead of wages and dearness allowances. Any plan worth the name should avoid such a contingency.

8. A Compromise Between Capitalism and Socialism. The Bombay Plan foreshadows an economic organisation not unlike the type of society which Prof. Pigou foreshadows in his book, ‘Socialism vs. Capitalism’ and the plan quotes the passage which in their opinion correctly describes the society they have in view and the role the state will have to play in it. “If, then, it were in the writer’s power to direct his country’s destiny, he would accept, for the time being, the general structure of capitalism but he would modify it generally. He would use the weapon of graduated death duties and graduated income-tax, not merely as instruments of revenue, but with the deliberate purpose of diminishing the glaring inequalities of fortune and opportunity which deface our present civilisation. He would take a leaf from the book of Soviet Russia and remember that the most important investment of all is investment in the health, intelligence and character of the people. To advocate ‘economy’ in this field would, under his government, be a criminal offence. All industries affected with a public interest, or capable of wielding monopoly power, he would subject at least to public supervision and control. Some of them, the manufacture of armaments, probably the coal industry, possibly the railways, he would nationalise, not of course on the pattern of the Post Office, but through public boards or commissions. The Bank of England he would make in name—what it is already in effect—a public institution, with instructions to use its power to mitigate, so far as may be, violent fluctuations in industry and employment. If all went well, further steps towards nationalisation of important industries would be taken by degrees. In controlling and developing these nationalised industries, the central government would inevitably need to ‘plan’ an appropriate allocation for a large part of the country’s annual investment in new capital. When these things had been accomplished, the writer would consider his period of office at an end, and would surrender the reins of government. In his political testament he would recommend his successor also to follow the path of gradualness—

1. Brij Narain, *Indian Economic Problems*, Vol. II, pp. 187-188.

to mould and transform, not violently to uproot ; but he would add, in large capitals, a final sentence, that gradualness implies action, and is not a polite name for standing still."

9. The People's Plan.¹ While the Bombay Plan, in a way, depicts the capitalist attitude to post-war construction, the People's Plan, also called the Royist Plan,² represents the independent views of the Indian Federation of Labour on this vital matter. This plan is more comprehensive than the Bombay Plan in that it deals with every aspect of planning including the methods of control for production and the distribution of the wealth produced.

The entire plan covers a period of ten years and may be briefly summarized as follows :

The total expenditure involved during the whole period of planning is Rs. 15,000 crores. This expenditure is distributed in this way :—

				In Crores of Rupees
Agriculture	...	...	...	2950
Industry	...	...	...	5609
Communications	...	...	...	4000
Health	...	...	...	760
Education	...	...	...	1040
Housing	...	...	...	3150

The initial capital expenditure for a period of three years of the plan is estimated at Rs. 2600 crores. It is calculated that with this initial investment the plan can finance itself, i.e., the State will then find enough funds for further investment as the initial expense is concentrated on items which are expected to bring in an immediate return. Thus agriculture absorbs 66 per cent. of this expenditure during the first five years, while industries will claim only 20 per cent. of the expense during the same period. Communications are not supposed to be tackled till the fourth year of the plan. The first half of the total period is to be devoted to agricultural development and the second half to industrial development. The expense on industries and social welfare services like education, health and housing will depend on the surplus produced by agriculture. Thus the main emphasis of the agriculture which is supposed to yield an increase in output of 400 per cent. It is stressed that any attempt to increase the income of the people will have to start through concentration on

1. People's Plan for the Economic Development, being Report of the Post-War Reconstruction Committee of the Indian Federation of Labour.

2. The People's Plan is mainly the work of Mr. M. N. Roy, the leader of the Left-wing of Indian Labour.

agriculture which is the main occupation of two-thirds of India's vast population.

To increase the production from agriculture, land is to be nationalized and usury abolished. The area under cultivation is proposed to be increased by 50 per cent. through a rapid extension of irrigation and reclamation of waste areas lying uncultivated. The methods of production are to be mechanized and 25,000 State farms and research institutes equipped with modern mechanical instruments are to be established. It is affirmed that these steps will not only provide enough food for the people and raw materials for the industries but also produce a surplus of these for export to foreign countries for purchase of machinery and equipment in exchange.

10. Criticism of the Plan: It has, however, not been foreseen that a fivefold increase in agricultural produce will create such a big surplus that in spite of the increased local consumption, it will not be saleable in foreign countries at *reasonable* rates, for U.S.A., Argentina, Australia and Russia will not be idle during the meantime. Such universal overproduction may very well lay the foundation of another world depression of the type of the early thirties.

In fact, the plan proposes rapidly to introduce land socialism in India of the type existing in Russia and to adopt the same methods in doing it. The age-old social and religious customs which have ruled Indian life for thousands of years have no value in the Royist Plan and a veritable revolution with impossible objectives is aimed at. An increase of 50 per cent. of the cultivated area in a period of 5 years with a complete nationalization of land and an income of Rs. 810 crores from Estate Duty are taken for granted. Industries have been relegated to quite a secondary position and a very wide margin of State control envisaged. The profits from private enterprise have been limited to a bare 3 per cent. which correctly interpreted means the abolition of private enterprise altogether. Prof. Brij Narain with his usual caustic humour brings out the many serious faults of the People's Plan in this matter in a graphic manner.¹

It is, however, seen that the People's Plan lays the necessary emphasis on the important problem of distribution even though it advocates revolutionary methods of production in agriculture. Besides there is a provision for the expansion of means of communication and transportation. The total mileage of railways

1. Brij Narain, *Post-War Planning*, p. 243, et seq.

is proposed to be increased by 50 per cent. and of roads by 150 per cent. A considerable development of internal navigation and coastal shipping is also suggested. The State is further required to finance a huge programme of housing, health and education. Along with the controlled development of agriculture and industries, the process of distribution is also to be firmly controlled. Prices of all commodities are to be fixed and their distribution undertaken (as an alternative channel to private enterprise) through a network of co-operative societies which will purchase their stores direct from collective farms and State-controlled factories.

For the period of ten years converted by the Plan, the following Schedule of Investments is proposed.

(In crores of rupees)

Year	Agri- culture	Basic Industry.	Con- sumer goods Industry.	Commu- nication.	Health.	Edu- cation.	Housing.	Total.
1	200	100	...	...	...	...	...	300
2	350	100	100	...	20	30	...	600
3	450	100	100	...	20	30	...	700
4	500	100	150	50	30	37	...	867
5	450	150	250	100	40	90	274	1,354
6	450	300	400	200	50	100	288	1,788
7	250	350	450	300	80	150	480	2,060
8	100	400	500	390	120	180	848	2,448
9	100	500	500	300	200	200	726	2,526
10	100	500	550	250	200	223	534	2,457

The above figures show that the Royist Plan puts a very much greater emphasis on consumer goods industry than on the basic industry. It aims to spend Rs. 3,000 crores on the former as against only Rs. 2,600 crores on the latter. It clearly advocates that the industries on the development of which there should be laid a relatively greater emphasis by the planning authority should be consumer goods industries." Cottage industries are simply ignored, while the importance of basic industries is not sufficiently recognised. The plan asserts that in the world as it is likely to emerge after the present war, the problem of defence will not be a pressing problem and utilisation of resources for the purpose of defence a sheer waste.²¹ And yet Russia itself which the Royists are so fond of holding up for imitation proposes to spend uncounted millions on armaments, so as to be ready presumably for a third world war.

The plan makes too bold a presumption to assert that "at the end of ten years, agricultural production will increase by 400 per cent. or more and industrial production by 600 per cent. The standard of living of the masses will rise by 300 per cent. exclusive of the services such as health, education and housing which will be provided for them."¹

The People's Plan like the Bombay Plan does not contemplate provision for unemployment and social security. It does not provide for any agricultural and industrial fluctuations and trade cycles which should not be forgotten when very big problems which entail a great deal of uncertainty are being tackled.

The sum of Rs. 15,000 crores required to finance the execution of the plan is to be obtained thus :

	In Crores of Rupees
(1) Sterling Balances	450
(2) Initial finance—Estate Duty, etc. ...	810
(3) Income from nationalized land in the pre-first year of the plan	90
(4) Income from agriculture for reinvestment during the period of the plan ...	10,815
(5) Income from industries for reinvestment during the period of the plan ...	2,834
	<hr/> 15,000 <hr/>

11. The Gandhian Plan.

This plan is not so ambitious in its estimates of expenditure as the others we have considered. It claims that India is a poor land and should start modestly. It proposes to spend a total sum of Rs. 3,500 crores in a period of 10 years, and distributes it thus :—

(In crores of rupees)			
		Non-recurring	Recurring
Agriculture ... ..	...	1,175	40
Rural Industries ... ..	...	350	—
Large-scale and Key industries ... ..	...	1,000	—
Public utilities ... ..	...	
Transport ... ..	...	400	15
Public Health ... ..	...	260	45
Education ... ..	...	295	100
Research ... ..	...	20	—
Total		3,500	200

The Gandhian Plan is idealistic and not based on cold, economic reasoning. It attaches main importance to the welfare of rural areas, development of agriculture and subsidiary cottage industries.

It asserts that "our planning should be based on the indigenous culture and civilization of the nation and should be in the nature of an organic growth. It should not result in excessive regimentation of the masses by diverting them and their legitimate liberty in social, economic and political life. It must plan for democracy and not for totalitarian control."

According to this plan the British system of planning is a roundabout process of first allowing the capitalists to exploit the poor and then throwing crumbs of financial help to the exploited by taxing the exploiters. The procedure is claimed to be unnatural and degrading. The Soviet plan, 'far from being classless, is dominated by a new and powerful section—the Managerial class'¹. The individual has no independence though materially he is much better off than before. The Fascist plan gave full employment but not a higher standard of living. The people were taught to prefer guns to butter.²

Gandhi does not want to plan along industrial lines. According to him 'machine' is the handmaid of capital and puts human labour and concentrates wealth in the hands of the few by the exploitation of the many. Production by the village communities will be for immediate use and not for distant profitable markets. Each village of group of villages is meant to be self-sufficient. Mechanisation is considered an evil and it is only reluctantly that a few basic industries mainly needed for the evolution of cottage industries and the defence of India are advocated. The total expense on these is put at 1,000 crores including Rs. 500 crores required to buy out foreign interests.

A balanced diet (according to Dr. Aykroyd's calculations) yielding 2600 calories of heat, 20 yards of clothing per year, housing accommodation of 100 sq. feet for each individual, free and compulsory education for every boy and girl, public utility services for all including medicine and recreational facilities like playgrounds, indigenous theatres and folk dances are laid down as the objectives of the plan.

The money is proposed to be obtained thus:—

Internal borrowing	Rs. 2000 crores
Created money	Rs. 1000 crores
Taxation	Rs. 500 crores

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1. Burnham—Managerial Revolution.
 2. The Gandhian Plan—Penguin series by S. N. Aggarwal.

It is further proposed that the income and super taxes shall be more steeply graduated, salt-tax abolished, higher agricultural incomes taxed and lower ones relieved. Military expenditure will be reduced drastically and no civil servant will receive more than Rs. 500 per month.

The Gandhian plan makes a full use of man-power resources. It aims at making people conscious citizens, providing themselves an honest livelihood. But these people will have to content themselves with a very low standard of living. Standards can't rise unless there is an increase in capital equipment. The Gandhian plan condemns artificial methods of birth control and advocates "continence as the only practical and desirable method of checking undue increase in numbers," and equally strongly condemns intensive capital development, yet hopes for an improvement in the standard of living which will check the existing increase in numbers. Thus the scheme can well be called 'Utopian.'

12. The Government of India Plan : Since the Department of Planning and Development was placed in the hands of Sir Ardeshir Dalal, one of the authors of the Bombay Plan, on the first of August, 1944, the Government of India in spite of its proverbial red-tapism and dilatoriness has done very important work so far as Post-War Planning is concerned. The Report published in the form of a Yellow Book in November, 1944, is not the final word on matters of Government's policy. It is only a beginning and is primarily meant to provide guidance to planning authorities. The concrete plan with complete relevant details is out.

The plan has been rightly split into two parts, a short-term plan and a long-term one.

The objectives of the short-term plan covering 5 years from 1947-48 mainly consist of :

The resettlement and re-employment of defence services personnel and of labour displaced from war industry, military works, etc. ;

(ii) the orderly disposal of surplus military stores and equipment, land and buildings ;

(iii) the conversion of industry from war to peace ; and

(iv) the removal or adjustment of controls to suit peace conditions.

Of the long-term projects, there are some which involve large-scale capital expenditure and are of basic importance to development as a whole. These are :

(i) The development of electric power as the basis of industrial development and to a lesser extent of agricultural development, pump-irrigation and rural industry ;

(ii) The development of industry with special reference to the production of capital goods and consumer goods required by the bulk of the population, and also the maintenance and development of small-scale and cottage industries ;

(iii) The development of road communications and transport service on a comprehensive scale, especially in rural areas ; and

(iv) The improvement of agriculture, and with it, the development of irrigation, anti-erosion measures, land reclamation, etc.

It is proposed to lay the foundations of improved education, housing and health at the same time because these services besides being essential for the welfare of the masses, are a prerequisite for the development of agriculture and industry. Technical education is perhaps the most important of all such services at the moment. The Government comprehend that the real bottleneck to progress will not be the provision of finance, but trained personnel and capital goods. To remove the former difficulty they propose to send abroad a number of students (500) for training in technical lines. Sir Ardeshir said, " We hope to get most of the training schemes in hand before the end of the war, and specially to send students overseas at any early date. There is also under consideration the setting up of central institutions for training, such as a Central Technological Institute on the lines of the Massachusetts Institute of Technology, and an all-India Medical Centre, and perhaps a Central Agricultural College. These institutions, and possibly others, will be mainly for post-graduate and higher training.

An all-India Basis : The Central Government will not only initiate all plans and policies for subjects for which it is responsible, but will also provide expert advice to Provinces and States and endeavour to ensure a common policy on important questions ; ensure interchange of information and possibly of technical advice between Provinces and States ; provide *financial advice and assistance*¹ where considered justifiable or necessary ; assist in the procurement of plant or technical staff and co-ordinate

1. Italics ours.

scientific research and experiment, expert and technical investigations, training of technicians, etc.

Planning is intended for India as a whole, but it is stressed that this does not prejudice the constitutional issue for whatever form the construction may take in the future and whatever the measures of Provincial and State autonomy under it.

The problem of distribution, too, is not neglected. It is clearly laid down that steps will be taken to ensure an equitable distribution of the wealth that is produced. Planning, as contemplated in the report, will secure to the poorer classes various amenities free or at reduced cost, such as education, medical relief, water supply and other public utility services, including electric power. Labour must get a fairer deal in the form of reasonable wages, maternity and sickness benefits, holidays with pay and such like provisions. Efforts will be made to ensure that the amenities provided under the plan are more especially utilized for the benefit of the scheduled and backward classes so as to raise them to the level of their more fortunate fellow-citizens.

Financing of the Plan : The Government of India estimate that a round figure of Rs. 1000 crores will be available for the first five-year period. Approximately half of the total sum will consist of revenue surpluses while the remainder represents loans which might be raised by the Provinces and the Centre. The figure of Rs. 1000 crores does not include amounts which might be raised from the market for private enterprise and investment. It is likely that this too may approach Rs. 1000 crores.

The Government provisionally suggest that capital expenditure on power development, roads and irrigation will be financed out of loans, and in the case of industrial development, out of private capital. Recurrent expenditure on services including the service of loans, and expenditure on social services shall be met out of revenue.

The success of Government policies will depend on the contentment, health, and efficiency of labour and steps are promised to be taken for the improvement of employment services and for the expansion of social security, welfare and health schemes.

A Health Insurance Scheme : It is a matter for gratification that a health insurance scheme has already been submitted to the Government of India by Prof. Adakar, Officer on Special Duty in the Labour Department, to tackle the problem of labourers' sick-

ness. It covers 12 lakhs of labourers out of the 20 lakhs or nearly 60 per cent. of the total factory workers in India. The scheme is to apply in the first instance to three groups of factory industries, namely, textiles, engineering and mining and metals. The scheme is compulsory in character and provides security against ill-health to the workers, whether permanent, temporary or casual. It provides that the employers should pay Re. 1-4 and the permanent employee As. 12 per month. In case the Government agree to make a contribution, the employer will pay Rs. 14, the permanent worker As. 10 and the Government As. 8 each. This will entail an expense of Rs. 72 lakhs in a year for the Government. The scheme provides medical benefit including free medical attendance and treatment without limit for the worker. Cash benefits will be subject, it is stated, to certain conditions; regarding 'qualifying' and 'waiting' periods. It is not clear, however, whether the benefits will be at a graded rate or a flat rate. Prof. Adakar has also recommended a scheme of insurance for disability and the provision of maternity benefit through insurance in place of the present Workmen's Compensation Act. The scheme has been styled as an "Epoch-making event in Indian labour legislation."¹

Agriculture :—

In order to satisfy the needs of the increasing population area classified as cultivable waste should be brought under cultivation, by introducing new irrigation schemes, installing electric tube-wells to utilise the subsoil water and building tanks, by adopting modern dry-farming methods and comprehensive contour bunding in the Deccan and Rajputana; by reclaiming water-logged areas and rehabilitating eroded lands.

As a result each individual will have 10% more lb. of cereals a day in addition to protective foods like milk, vegetables, fish and meat. In fact, the following increases on existing production are fixed as minimum targets :—

Cereals	10%
Vegetables	100%
Pulses	10%
Fats and Oils	250%
Fruits	50%
Milk	300%
Fish and eggs	300%

To stimulate production (i) land revenue may be adjusted to prices, and partly paid in kind so as to ensure automatic relief

1. 'Commerce' for November 11, 1945.

for the cultivator where prices are low and (ii) prices of agricultural commodities stabilised at economic levels.

In order to ensure a sufficient supply of raw materials for the growing industries and for the export market for the procurement of capital goods, crop planning will be adopted and stability of centre and freedom from restriction ensured to the actual user of the land. Adequate arrangements shall be made for rural finance. The Government shall use compulsion in the use of improved varieties of seeds, in the control of animal breeding, in the consolidation of holdings, in preventing further fragmentation and in marketing the produce. Each province shall have 20% to 25% of its area under forests properly distributed to enable every village to have its fuel supply reasonably near.

Industry:

An intensive development of industry is essential to enable the provision of social amenities contemplated under the plan. In the beginning important capital goods industries, considered essential for national purposes shall have preference. The iron and steel industry, the heavy engineering industry, the heavy chemical industry, the machine tool and fertiliser industries may be mentioned in this connection. In order to find an outlet for the created purchasing power consumer goods industries shall be developed. Cottage and small-scale industries are of this type.

There are certain industries like the armaments industry which the state shall own and manage in its interests. There are others for which private capital may not be forthcoming and yet they need to be established by the state, e.g., the Ammonium Sulphate industry. But the most usual form of state relationship with industries will be that of state control through the nomination of directors, licensing, limitation of dividends etc. They will be operated for public benefit after providing a reasonable return for capital and enterprise.

Technical training will be provided in India and abroad through scholarships, machinery experts provided where needed. It will be seen that capital is issued in India, the directorate is largely Indian and the management of industry rests in Indian hands. Ample provision shall be made for scientific and industrial research, geological and mining surveys, power and transport facilities, tariff and subsidies, priorities for machinery and financial help.

Transport : Every aspect, road, railway, air, internal marine, coastal and deep-sea transport has been tackled and targets laid. The details have already been discussed in the chapters on Transport.

Public Health, Education, etc. The plan deals with all branches of education and endeavours to present an integrated scheme covering the entire field. It envisages free, compulsory education between the ages of six and fourteen and before that nursery schools and classes. In addition, adult vocational and non-vocational education and employment bureaux are also proposed. It does not neglect the purely cultural and recreation side of education, as it attaches particular importance to the provision of the widest facilities for encouraging boys and girls, men and women, to fulfil themselves as individuals and to make a profitable use of their leisure. It also foresees the necessity for enlarging and making more practical the present provision for technical, commercial and arts instruction at all levels in order to provide India with research workers, executives and skilled craftsmen. The estimated cost comes to Rs. 312 crores gross or Rs. 277 crores net per year when the plan will be in full operation in its 40th year. A national health policy must be comprehensive in its scope. It must have an objective of maximum attainable health of every individual, infant, child, mother and adult. The Health Survey and Development Committee has made far-reaching proposals tackling public health and medicine.

Town-planning is not neglected. In addition to the proposed scheme of sickness insurance for industrial workers, other aspects of social security needs have also been taken into consideration following the lead of more advanced countries. National research laboratories are proposed to carry on research in all directions—physical, chemical, metallurgical, fuel, glass etc. All research to be co-ordinated in order to avoid duplication and overlapping as far as possible for which purpose statistics of all kinds are proposed to be collected by trained staff.

The form of the future Government of India lies in the womb of the future yet. It was thought by some that for the sake of economic prosperity and defence we remained one and undivided with complete provincial autonomy.

Whatever form the future constitution takes, the future Provinces and States will all benefit by the contemplated measures of economic progress.

Economics of Pakistan

CHAPTER I

AREA, POPULATION AND NATURAL RESOURCES

1. Introduction : Pakistan became an independent State on the 15th of August 1947. It came into existence through the division of the old British India. The Indian States were expected to join either one or the other of the two Dominions. Except Kashmir the problem of the other states has been practically settled.

The Dominion of Pakistan at the moment consists of the following areas :—

A—Western Pakistan comprises :—

(a) The Province of West Punjab created by the division of the old Punjab and comprising about 60% of the area of the old province.

(b) The Province of N.W.F.P., Sind and what used to be the Chief Commissionership of Baluchistan.

(c) The States of Bahawalpur, Khairpur, Kalat, Dir, Chitral, Amb and Sawat, which have acceded to Pakistan.

B—Eastern Pakistan consisting of :—

The Province of East Bengal which contains some districts of the old Province of Bengal, the Sylhet district of old Assam and the Chittagong Hill tracts.

These two portions of Pakistan are separated by over a thousand miles of Indian territory.

The capital of the Dominion is at Karachi in West Pakistan.

In the following pages we propose to study the basic economic facts and problems of this new Dominion of ours.

2. Area and Population : The total area of undivided India was 15.7 lakhs of square miles and according to the census of 1941 the total population of the sub-continent was 389 million souls; 23% of this area and 19.5% of the population has fallen to the share of Pakistan. If Kashmir ultimately comes to Pakistan

the share of population will go up to 20.5% and of the area to 28.2%.

On the basis of the 1941 census the density per square mile in Pakistan comes to 317 as against India's 535.

Eastern Pakistan, however, is much more densely populated than West Pakistan. Containing 64% of the total population and only 25% of the total area of the Dominion, its density is as high as 718 against only 136 of West Pakistan.

Although the major portion of the population of Pakistan is found in its eastern portion, yet West Pakistan is of greater importance to the Dominion. This is not only because of its larger area but also because it is contiguous to the Middle Eastern Muslim block of countries and it is more advanced socially, economically and politically. Strategically also it is of greater importance. Hence the capital of the Dominion was located in the western portion at Karachi.

On the other hand Eastern Pakistan is surrounded almost from all sides by Indian territory, and is divided from the western portion of the Dominion by more than a thousand miles of land belonging to the sister Dominion of India. The sea route from Karachi to Chittagong involves a long voyage of thousands of miles *via* Cape Comorin, along the Indian coastline. This fact has far-reaching economic and political implications.

The percentage of urban and rural population indicates the degree of social and economic development of a country, especially the degree of industrialisation. According to the census of 1941, 339.6 million persons lived in rural areas and 49.4 million in urban areas of undivided India. This meant about 13% urban and 87% rural population.

At the moment the percentage of urban population is 14 in India and only 8 in Pakistan. This shows that India is comparatively more developed industrially. As we shall see, thanks to the policy of the undivided Indian Government and other factors, Pakistan has practically no industries worth the name. This fact stresses the need for rapid industrialisation and hence urbanization in Pakistan.

Another aspect of distribution of population is according to communities. According to the census figures of 1941, the areas demarcated as Pakistan should have contained 51.4 million (73.1%) and Muslims 19.6 million (26.9%) of non-Muslims. Since the partition it has been estimated that about 4 million of non-Muslims have moved out of Western Pakistan and about 6 million

of Muslims have migrated into it. Thus on the basis of 1941 census Pakistan should contain 57.4 million (78.6%) Muslims and 15.6 million (21.4%) non-Muslims. The number of Hindus and Sikhs in Western Pakistan is now insignificant. The percentage of non-Muslims in Eastern Pakistan is over 27.

No doubt the density of population in Pakistan as whole and specially in Western Pakistan is lower than in the Indian Dominion, yet the pressure on the economic resources of Pakistan is probably higher than in the case of India. This is due firstly because Pakistan is almost entirely an agricultural country with no industries worth the name, secondly, because of the net addition of two million souls due to post-partition migrations and thirdly because of the increase that must have occurred since the census of 1941. This last factor however is common to both the Dominions. The percentage increase in the population of the Indian sub-continent during the decade 1931-41 was 15 and during the previous decade 10 (ten).

Even if we take net increase in Pakistan at 1% per year the total probable population of Pakistan cannot be less than 77 million souls, and this is a very heavy burden on the primitive economy of our country. Unless steps are taken to bring about rapid economic development we may be very soon faced with the problem of over-population in an acute form.

3. Mineral Resources : Pakistan is in a very weak position as far as the known mineral resources are concerned. Almost all the mineral areas lie in the Indian Union, as the following table shows :—

Minerals	Indian Union	Pakistan	Percentage of the total in Pakistan
Coal (lakh tons) ...	248.0	3	Negligible.
Iron (million tons) ...	2.3	..	nil
Copper (lakh tons) ...	3.3	...	nil
Manganese (lakh tons) ...	3.7	...	nil
Bauxite (tons) ...	12,135	...	nil
Petroleum (million galls.)	82.3	15.2	16
Mica (000 cwt) ...	139	...	nil
Chromite (000 tons) ...	21	19	47.5
Gypsum (000 tons) ...	26	58	69.0
Fuller's earth (000 tons) ...	8	3	27.2

As far as the most important minerals like coal, iron, copper, manganese, bauxite and mica are concerned Pakistan produces nil except for a negligible quantity of coal.

As regards Petroleum both the Dominions have to depend upon imports from foreign countries. Pakistan's relative position even here is weaker than India's. In respect of Chromite, Fuller's earth and Gypsum Pakistan's position is stronger than India's though the total quantities produced are not large. These minerals are industrially less important.

The State of Chitral in Pakistan enjoys a monopoly in the production of Antimony ; but the total production is quite small.

Salt is an important mineral and is also produced from sea and lake waters. The total production of salt in undivided India was about 1.9 million tons. Roughly about one-third can be attributed to Pakistan though definite separate figures are not available. Pakistan is more than self-sufficient in salt.

Apart from the above a large number of other minerals is produced in the Indian Union such as berytes, china clay, magnesite, ilmenite, kynite, stealite, monezite, ochre, diamonds, gold and silver. None of these are produced in Pakistan.

So far, however, we have spoken of the already discovered and exploited minerals. Geological survey may reveal more mineral wealth in Pakistan than discovered hitherto. Attempts are already being made in this connection. Large-scale prospecting for oil is being undertaken by the Burma Oil Company. At the moment two test wells are being drilled one at Chakwal in West Punjab and the other at Lakhra about 170 miles from Karachi. Oil has also been discovered recently in Eastern Pakistan in the Chittagong region and the districts of Sylhet and Tippera. Coal is said to be available in the Khyber hills and Surghar ranges of Kohat. It has also been located in Eastern Pakistan. Mica occurs in the Hazara district. Sulphur is obtainable from the dried up sulphur springs of Chitral and also occurs in Baluchistan. Alum is found in Khyber and Kalabagh hills. But unless we know exactly what quantities and of what qualities of these minerals are available, it is difficult to have any definite idea of our mineral wealth. Moreover the cost of extraction is also a relevant factor. Hence it is necessary to carry out an exhaustive Geological survey which should be undertaken as soon as possible.

So long as these resources are not surveyed and made available, Pakistan will have to depend upon imported material from India and elsewhere.

4. Hydro-electric Schemes : Pakistan lacks coal and has inadequate oil. The most important source of power available to

Pakistan is hydro-electricity. Our hydro-electric resources are plentiful but so far have remained undeveloped. The Pakistan Government, however, realises the importance of this aspect of our economic development. Below are given some of the important hydro-electric projects, in the various parts of the country, either proposed or already under construction :

(i) *The Rasul Project (West Punjab)*. The principal source of hydro-electricity in the pre-partition Punjab—the Hydro-electric Power House at Mandi—has gone to the East Punjab. The agreement under which West Punjab receives electrical energy from this source is due to expire on the 31st March 1949. A new Hydel station is being constructed at Rasul in the Gujrat district which will fill the gap thus caused in about two years time. Originally this project was planned to supply 22,000 kwts of electricity from two tunnel falls. This was to be used for working tube-wells for irrigation purposes. After partition it was decided to have three tunnel falls and produce 11,000 kwts more to be used for domestic and industrial purposes.

Apart from the Hydro-electric station at Rasul, the scheme involves grid sub-stations at Jhelum, Gujrat, Gujranwala, Shalamar, Hafizabad, Chinawan, Sukheke, Sangla, Chakjhumra, Lyallpur, Chiniot, Dinga (Chakori), Malakwal, Bnabra, Bhulwal and Sargodha.

The necessary plant and machinery are being supplied by manufacturers in the United Kingdom and the bulk of it has already arrived.

(ii) *Warsak Scheme (N. W. F. P.)* :—This is a multiple project involving the building of a dam on the Kabul River at Warsak in the N. W. F. P. The dam will be 200 feet high and will be located in a narrow gorge with a power-house at its base. The scheme will provide 100,000 kwts of electrical energy and will cost Rs. 10 crores. Transmission lines will be constructed through Peshawar to Rawalpindi where power will be delivered in bulk to the West Punjab.

The scheme will provide irrigation to 65,000 acres of land in the tribal area which has a rich soil but lacks water. It will work tube-wells in the Kohat district and will also supply power for working the Mullazai Marble quarries. In addition it will supply power for the industrialisation of the provinces of N. W. F. and the West Punjab.

It was on account of the great benefit expected from this project that the inter-provincial electrical conference held at Karachi on the 28th of August gave it the top priority.

(iii) *Karnafulli Project (East Bengal).* The Government of East Bengal aims at producing 111,000 kwts of electrical energy for industrialisation and other purposes. The total capital expenditure will be about ten crores of rupees. The biggest project is the Karnafulli Hydraulic scheme. For this a dam will be constructed across the River Karnafulli. The survey has already been carried out and the site selected. It is expected that this power station will supply electricity to the districts of Chittagong, Noakhali and Tippera. This station alone will produce 40,000 kwts of electricity.

(iv) *Other Projects.* Among the other projects may be mentioned the Mianwali scheme in the West Punjab. This will be put in operation after the Warsak scheme has been launched. It will supply electricity to the provinces of the West Punjab and N.W.F. for their industrialisation. Another scheme envisaged by the N. W. F. Government is the Dargai Hydro-electric project which will produce 15,000 kwts and will cost Rs. 1.5 crore. Ghazi Project is another scheme for N.W.F.P. which will receive attention after the Warsak scheme has materialised. In Sind it is planned to construct two canal projects, i.e. Rohri and Naro canal schemes.

All these schemes will generate 5,00,000 kwts of power which was the target put forth by the Pakistan Industries Conference. The Central Government of Pakistan has already agreed to give a subsidy of Rs. 9 crores to the Governments of N.W.F.P. and West Punjab for putting into operation their Hydel schemes. It is expected that all these schemes will start supplying electricity within a period of from four to five years.

5. Forest Resources : Undivided India had 87 million acres under forests. Leaving aside 2 million acres in Kashmir, the Indian Union possesses 80 million acres, and Pakistan only 5 million acres. Thus while in the Indian Union 15% of the total landed area is under forests this percentage is only 5 in Pakistan. This is not enough. The best percentage of forests to total area is considered to be from 20 to 25. Pakistan should at least aim at 15 per cent. by a policy of planned afforestation.

This is necessary because of the great value of forests for the economy of a country. They are a source of various products like timber, fuel-wood, rosins, drugs, tanning materials etc. Then their indirect benefits are great. They influence climate and rainfall, regulate the flow of rivers and check disastrous floods. They also prevent soil erosion.

Though inadequate in area, Pakistan forests possess great variety both scenic and botanical. They range from the tropical East Bengal flora to the sub-tropical and temperate vegetation of the west and alpine forests of the higher Hazara hills in the north. The inadequacy of forests in the East Pakistan is greater because of its much higher pressure on land and hence more extensive cultivation. Even then the submontane tracts and Chittagong hills possess magnificent evergreen and semi-evergreen tropical forests. The less moist regions have deciduous sal trees and bamboo.

In Sind, Baluchistan and parts of the West Punjab, the climate being drier, forests shrink to shrub jungle, the commonest tree being acacia in its various species. Sal and shisham grow in the West Punjab and N.W.F.P. especially in the irrigated areas. Pine forests are found in the submontane regions of Murree, Hazara and the States of Amb, Swat, Dir and Chitral.

These forests with proper conservation and exploitation can support several industries like lumbering and sawing, paper, matches etc. Minor forest products like rosin, drugs and tanning materials can be used for the manufacture of paints and varnishes, chemicals and pharmaceutical and tanning industries. Irrigated plantations and shrub jungles can supply fuel-wood and also provide timber for the manufacture of high class furniture. Pine forests could meet the requirements of the building industry.

6. Livestock Resources : Livestock serves three purposes : (a) It provides food in the form of meat and dairy products. (b) It is a source of power for agricultural operations like ploughing the fields, irrigation through wells, carting agricultural produce etc. (c) It provides hides and skins, bones and hair as raw materials for various industries.

The output of dairy products depends upon the number of breeding cows and buffaloes, goats and sheep and their average yield of milk. The following table gives statistics for India and Pakistan for the year 1938.

Figures in Lakhs

	Breeding Cows	Breeding Buffaloes	Total
Indian Union ...	355	160	515
Pakistan ...	94	32	126
Percentage share of Pakistan ...	20.9	16.6	19.3

Having a population percentage of 19·5 it will be seen Pakistan possesses proportionate share of breeding cattle. The share in buffaloes, however, is lower than that in cows. But since the largest yield of milk is given by cows in the West Punjab, Pakistan on the whole is better off as regards her dairy resources than India. While production of milk per head per day in West Punjab is 18 ounces, it is less than 8 ounces in the Indian Union.

As regards the production of hides it is a function of the total cattle population. The relevant statistics are given below :—

		Indian Union	Pakistan	Percent Share of Pakistan
Cows (Lakhs)	...	617	166	21·2
Buffaloes (Lakhs)	...	282	50	15·0
Raw cow hides (lakh pieces)	...	169	36	17·5
Raw Buffalo hides	...	53	9	14·5

Pakistan's share taking buffaloes and cows together is strictly in proportionate to her population (19·3%). While there is an excess in cows there is a deficiency in buffaloes.

As regards hides it is interesting to observe that while in the case of buffaloes the proportion of cattle heads and hides is about the same (15%) in the case of cows the proportion of cow hides (or kips as they are called) is higher than the population of cow heads. This is due to the absence of any scruples on the part of Muslims regarding the eating of beef.

Similar figures are given below regarding goats and sheep (year 1938).

		Indian Union	Pakistan	Percent Share of Pakistan
No of Goats (Lakhs)	...	490	90	15·5
No of Sheep (Lakhs)	...	400	60	13·0
No of Goat Skins (Lakhs)	...	230	45	17·5
No of Sheep Skins (Lakhs)	...	150	20	11·8

Although Pakistan's share of raw hides and skins is about 15% of the all India total its share in the export trade has not been more than 5%. The reason is that 92% of the tanneries of undivided India were located in Cawnpore, Calcutta and Madras—all in the Indian Union. A large part of the export of hides and skins is tanned. Pakistan must establish her own tanning industry for which she possesses every facility.

7. Conclusion Regarding Natural Resources : Pakistan is a fairly large country, the fifth biggest state and the largest Muslim State in the world, according to area. The state, however, is in two portions separated by more than a thousand miles of Indian

térterritory, which is its weak point. The population on the whole is homogeneous and is bound by common religious ties. More than 90% of the people live in villages hence the predominantly rural character of Pakistan's economy.

The existence of mineral resources is basic for industrial development. Pakistan is rather poor in this respect. There is a serious lack of metals and paucity of coal. There is, however, a fair amount of petroleum but the main source of power will have to be hydro-electric energy. The potentialities for hydro-electricity, though considerably diminished by partition of the Punjab, are still quite large in both the parts of the Dominion. Steps are already being taken to develop these resources.

Pakistan does not possess adequate forest resources, the area under forest being only 5% of the total. A policy of afforestation and conservation is indicated. Pakistan has quite a satisfactory number of cattle but its quality is poor. Better breeding and feeding arrangements are called for. Pakistan has fertile soil and excellent irrigational facilities. What use has been made of them is the subject of the next chapter.

CHAPTER II

AGRICULTURE AND AGRICULTURAL PRODUCTION

1. Importance of Agriculture : India as a whole has always been a predominantly agricultural country. The areas now demarcated as Pakistan are even more highly agricultural. In fact our future development must necessarily depend upon how we reorganise and develop our agricultural resources. Agriculture in Pakistan will have to meet the following needs of the country :

(i) It must produce enough food in the way of foodgrains, fruit, vegetables and dairy products, to feed the growing population of Pakistan.

(ii) It must supply raw materials for our industries like cotton textile, jute, oil products, sugar etc.

(iii) It must provide us with a surplus for exports to enable us to command foreign exchange for essential imports for our industrial development and other consumer's requirements.

(iv) It must help in the absorption into gainful employment the major portion of the refugees that have been forced into Pakistan as a consequence of disturbances in the Indian Union.

How far our agriculture will play these roles effectively will depend upon the degree and manner of employment of scientific knowledge to our agricultural methods and organisation.

The present position of our agriculture is indicated by the way land is utilized at the moment.

2. Land utilization in Pakistan : The table that follows classifies land in India and Pakistan from the point of view of the various uses to which it is being put. Figures for Kashmir are given separately.

(year 1938-39.)

Classification of area		Indian Union		Pakistan		Kashmir	All-India
		Million acres.	% of total.	Million acres.	% of total.	Million acres.	Total acres.
Net Sown	...	231	42	43	37	2	277
Current Fallow	...	50	9	11	9	0.3	61
Total cultivated	...	281	51	54	46	2.3	338

Forests ...	80	15	5	5	2	87
Not available for cultivation ...	90	16	30	26	3	123
Other uncultivated land ...	88	18	26	23	1	115
Total uncultivated ...	258	49	61	54	6	325
Total land ...	539	100	115	100	8.3	663
Total population (Millions)	314		71		4	389
Per capita sown acres	70		60		50	72
Irrigated area (mill. acres)	49		20		1	70
Percentage of irrigated to cultivated area ...	18		36		4	21
Area under food crops (mill. acres) ...	202.6		37.7		2.3	242.6
Area under non-food crops (mill. acres) ...	50.0		9		0.2	59.1
Percentage under food crops of the total ...	78		77		90	75

Some very interesting conclusions flow from this table:—

(i) Smaller percentage of the total area is sown and cultivated in Pakistan than India. Percentage not available for cultivation is much higher and other uncultivated land fairly higher in Pakistan as compared with India. Scope for further extension of cultivation is thus relatively higher in Pakistan than in India.

(ii) Area under forests is relatively much smaller in Pakistan and in fact very inadequate from every standard. This points towards the necessity of afforestation schemes being introduced in Pakistan as early as possible.

(iii) Sown area per head of population is less than an acre in both the Dominions but in Pakistan it is smaller than in India. Since the degree of industrialisation is extremely meagre in Pakistan this indicates a much higher pressure on land in Pakistan than in India. Due to increase in population during the last eight years without a corresponding increase in the sown area, area per head must be in the neighbourhood of 5 acres in Pakistan at present, which cannot be regarded as adequate under conditions of primitive agriculture and lack of alternative employments for the population.

(iv) Pakistan has, however, this advantage over India that the percentage of irrigated area to total cultivated area is double of what is in India. Thus the disadvantage of smaller per head sown area is more than compensated by the greater productivity of irrigated land. It is because of this that Pakistan is not only self-sufficient in food but also is in a position to export foodgrains.

3. Agricultural Production—food crops : As we have seen in the above table the area under food crops as percentage of the total area under crops is slightly higher in India and so is per capita acreage under food crops. Even then Pakistan is a surplus country as regards food production. This is due to the greater productivity of the soil in Pakistan, mainly due to better facilities of irrigation. This is indicated by the yield of the two main staple foodgrains of the country.

Area and yield of Wheat and Rice (1939-40)

	Crops	India	West Pakistan	East Pakistan	Total	Total ¹ India
Area (mill. acres)	Wheat	18.1	8.7	negligible	8.7	26.8
	Rice	51.1	1.7	16.9	18.6	69.7
Yield (mill. tons)	Wheat	5.1	2.8	negligible	2.8	7.9
	Rice	16.5	0.7	5.7	6.4	22.9

Thus as regards wheat while India has 67.5% of the total area it accounts only for 64.4% of yield. Pakistan on the other hand with 32.5% of the area contributes 35.5% of the yield. Wheat is almost entirely produced in West Pakistan. In 1944-45 this zone had a surplus of 620,000 tons of wheat, while East Pakistan which produces negligible quantity of wheat had a deficit of 177,000 tons in the same year.

As regards rice, India has 73.1% of the total area but only 72% of the total yield : Pakistan has 26.9% of area and 28% of the yield. 84% of the total area under rice in Pakistan lies in East Bengal which produces 90% of the yield. Rice is the staple food of East Pakistan while wheat is that of West Pakistan. In 1944-45 the deficit of rice in East Bengal was 765,000 tons. But since wheat has not been able to replace rice in the diet of East Bengal

1. States are excluded. No details available.

surplus of wheat from West Pakistan cannot meet the deficit of rice in East Pakistan. Thus wheat has to be exchanged for rice before it can be said that Pakistan can feed itself out of its own production of foodgrains. This difficulty was solved in a recent food agreement between India and Pakistan according to which Pakistan supplied wheat to Western Provinces of India in return for rice supplied to Eastern Pakistan by India.

Another important food product is sugar in which Pakistan is seriously deficient. This is so because of the lack of sugar mills in our Dominion even though we have fairly good proportion of sugarcane. Thus in 1943-44 while Pakistan had 14% of the total all-India acreage under sugarcane, this Dominion produced only 2% of the total factory sugar. This meets hardly 10% of our needs. The deficiency can be met by starting more sugar mills in Pakistan. Plans are afoot to start one of the biggest sugar mills of this sub-continent in N.W.F.P., at Mardan, which will produce about 50,000 tons of sugar a year.

While India is self-sufficient in sugar she is deficient in foodgrains and has to depend upon imports either from Pakistan or elsewhere.

4. Non-food Crops : The most important non-food crops of Pakistan are jute and cotton. Among others are tea, tobacco and oil-seeds.

(i) **Jute :** Jute is the most profitable cash crop of Pakistan and is produced entirely in the province of East Bengal. The most important producing districts are Mymensingh (which contributes 25% of the total yield) Rangpur, Dacca, Faridpur, Tippera, Jessore, Rajshahi and Pabna.

The area and yield in the two Dominions for the year 1947-48 are given below :—

		Pakistan	Indian Dominion	Total
Area (Lakhs) acres	...	20.58	6.45	27.04
Yield bales (Lakhs)	...	68.42	16.95	85.38
Percentage share area	...	76.1	23.9	100.0
Percentage share yield	...	80.1	19.9	100.0

The whole sub-continent produces 98% of the world's raw jute. Over 80% of the total production is contributed by Pakistan. In the prepartition India Jute formed 25% of the value of the total export trade of the country. Its value for Pakistan is

indicated by the fact that 75% of the value of our exports is contributed by Jute. The area under Jute is only 4% of the total cropped area of Pakistan and about 8 to 10 per cent. of the cropped area of East Bengal.

Another important fact about Pakistan Jute is its superior quality as compared with Jute produced in the Indian Dominion. Jute produced in the Pakistan districts of Bengal is "of hard and medium-hard qualities, is fairly strong and contains a good deal of high coloured fibre suitable for the manufacture of the high grade hessian."¹ Hence India will always stand in need of high-class Pakistan Jute for her factories.

This brings us to the other side of the picture. Although Pakistan produces 80% of the total raw Jute of this sub-continent she possesses not a single Jute Mill. All the 91 Jute factories are situated in the neighbourhood of Calcutta in the Indian Dominion. Even baling presses in Pakistan are not adequate in numbers. East Bengal has only 31 pucca baling presses with a monthly capacity of 2,29,975 bales. There are about 2,000 kutcha baling presses of which 75 are engine-drawn. Their baling capacity is very low about 100—125 bales a day. The Government of Pakistan have made arrangements for five more pucca baling presses.

As regards Jute Mills East Bengal requires at least 30 such mills with 500 looms each. This is the long-term target of the Pakistan Government. The short-term plan is to establish two Mills of 1000 looms. In addition the Chittagong Jute Products Ltd. are setting up a Jute Mill at Chittagong in the near future. Offers have already been received for Jute Mill machinery both reconditioned and new.

In the meantime, however, most of the raw jute of Pakistan will have to be exported. Until recently Calcutta was the sole outlet for exports. Now Chittagong is steadily gaining importance as a port. In October, 1947 only 984 bales were exported from this port. By May 1948 the figure had steadily risen to 1,31,829 bales (of 400 lbs. each). India is the chief consumer of Pakistan jute. According to the terms of the Inter-Dominion Agreement Pakistan has to supply 50 lakhs of bales to Calcutta. This year (1948-49) 3,44,661 tons of East Bengal jute have been earmarked for export to forty foreign countries.

The total value of raw jute produced in East Bengal comes to about Rs. 116 crores for the year 1947-48. At the rate of Rs.

1. Vakil: Economic Consequences of Partition, p. 19.

170 per bale of 400 lbs, this gives us a per acre income of Rs. 578 a year! No wonder it is called the "Golden Fibre" of East Bengal.

(ii) Cotton: The areas under cotton and yield for the two Dominions 1939-40 and 1945-46 were as follows:—

Regions	Acreage 10,000 acres		Yield 1000 bales of 400 lbs each.		Yield per acre in lbs.	
	1939-40	1945-46	1939-40	1945-46	1939-40	1945-46
West Punjab { Desi	1,400	850	580	300	165	141
{ American.	1,700	1,900	600	630	141	132
Sind { Desi	229	117	83	53	145	181
{ American.	680	750	251	318	148	170
E. Bengal.	90	85	27	23	120	108
N.W.F.P.	10	13	3	4	120	123
Total Pakistan.	4,109	3,715	1,544	1,328	150	142
Total Indian Union.	17,477	10,765	3,365	2,114	77	79
Total All-India	21,586	14,480	4,909	3,442	91	95
Percentage share of Pakistan.	18.5	25.6	31.5	38.6		

It is clear from the above table:—

(a) While Pakistan has about 26% of the total area it contributes about 39% of the production. This is due to the higher per acre yield in Pakistan especially in the canal irrigated areas of Sind and West Punjab.

(b) West Punjab is the largest producer of cotton in Pakistan. In 1945-46 it produced about 70% of the total.

(c) The (long staple) American cotton is almost entirely produced in West Pakistan, about 70% of the total being produced in West Punjab.

(d) During the War period while area and production in Pakistan fell by about 10% the fall in India was as high as 39% in the case of area and 37% in the case of production.

(e) Taking the different varieties of cotton grown in Pakistan the fall was only in the case of desi cotton. Thus while the area under desi cotton fell by 38% (about the same degree of fall as in India) area under American cotton rose by 11%.

This explains the reason of the larger reduction of area under cotton in India. The area under desi cotton was reduced by about the same proportion all over the sub-continent in order to

divert more land towards growing more food. In West Punjab and Sind much of the area released from desi cotton was put under American cotton which was required for weaving superior cloth by the Indian mills.

Since the partition there has been a serious fall in the production of cotton in Pakistan as the following table reveals. The figures relate to the final forecasts for the two years compared.

	Area 1000 acrs.		Yield 1000 bales of 400 lbs. each		Percentage charge in 1946-47 over 1947-48 increase and decrease	
	1946-47	1947-48	1946-47	1947-48	Area	Yield
West Punjab.	1,877	1,836	814	614	-2.2	-24.6
Sind.	856	797	374	310	-6.9	-17.1
E. Bengal.	55	55	14	14	...	...
N.W.F.P.	5	6	1	2	+20.0	+100.0
Total Provinces.	2,793	2,694	1,203	940	-3.6	-21.9
Bahawalpur.	405	390	162	156	-3.7	-3.7
Khairpur.	30	38	12	14	+26.7	+16.7
Total States.	435	429	174	170	-1.6	-2.3
Total Pakistan.	3,228	3,122	1,377	1,110	-3.3	-19.4

Thus while area under cotton in Pakistan has fallen only by 3.3 per cent. production has gone down by as much as 19.4 per cent. In the West Punjab while area has fallen by about 2% production has decreased by about 25%. The higher reduction has thus been in the West Punjab, Sind coming next. This great loss to Pakistan can be almost entirely explained by the disturbances following partition and their aftermath which has been mostly borne by the West Punjab. The outgoing non-Muslims destroyed crops on their way to India—a sort of a scorched earth policy. Moreover, migrations of populations took place just as the season for picking was to commence. The refugees that came from the East Punjab could not be settled quickly enough to be able to garner the crop properly and in time. Hence much of the crop was wasted.

The prospects for the next year are not very bright either. Refugees have been allotted only a few acres each family on which they will hardly be able to grow their food. Moreover, they have no experience of cultivating and handling American cotton, of the canal colonies, since they are used to the desi cotton of East Punjab. Added to this is the loss due to excessive rains and consequent floods of recent months. It is doubtful

1. Figures of 1947-48 not available; figures of 1946-47 repeated.

therefore if cotton production will reach its old pre-war figure of about 14 lakhs bales in the West Punjab. The latest estimate put it at 13 lakh bales.

The importance of cotton to Pakistan is shown by the fact that in 1946-47 the total value of cotton produced in the Punjab was Rs. 30 crores and in Sind Rs. 15 crores. Even the reduced crop of the year ending 31st March 1948 contributed Rs. 30 crores to our total exports from Karachi *ie*, 75% of the total value of exports. Moreover Pakistan must have her own cotton mills for which cotton especially the American variety will be needed as raw material. Cotton must clothe our growing population. The Government therefore must see that the deficiency recently created is only temporary.

(iii) *Tea*—After jute, tea is the most important product of Eastern Pakistan. The total area under tea in undivided India was about 840,500 acres and the amount of yield 465 mill. lbs. As a consequence of partition Pakistan has got about 75,000 acres with an annual production of about 52½ million lbs.

Important tea-growing areas of Pakistan are the district of Sylhet, Chattagong Hill Tracts and Tippera. The Sylhet district which was originally a part of the Province of Assam has 70,000 acres under tea and produces about 42 million lbs. of tea a year. These statistics are only rough estimates since a portion of the district was cut off and joined to the Indian Union by the Radcliff Award.

According to one estimate¹ out of 170 tea estates in Assam as many as 120 belong to Europeans. In these European estates there are 63,000 acres under tea which produce about 38½ million lbs. of tea a year. The remaining 50 estates are owned by non-Europeans and they produce over 3 million lbs. of tea from 13,000 acres.

Most of the tea labour in Sylhet is imported and is non-Muslim. Out of 120,000 imported labourers 95% are Hindus from the Indian Provinces of Madras, C.P., Orissa, Bihar and U.P. The remaining 5 per cent. are Bihari Muslims.

The main problems of the tea industry in Sylhet are that many European Estate-owners have left and Hindus have no interest in developing their estates and will sooner or later leave their estates probably after extracting maximum production by unscientific manuring etc. The loss of Europeans, who have mostly gone to Ceylon and South-East Africa, means the loss of knowledge and experience gained over years. Then there is the

1. 'Karachi Commerce July,' 24, 1948, p. 6.

difficulty of scarcity of machinery and manures and research facilities. Immediate tackling of these problems by the State is necessary to rehabilitate one of our important sources of wealth. This industry can supply not only the consumption needs of Pakistan but can yield a good surplus for export after meeting our own needs.

Pakistan produces no coffee. This still more increases the importance of the "cup that cheers".

(iv) *Tobacco*.—The area under tobacco in Pakistan is about 4 lakhs of acres. This is about one-third of the total average in the Indian sub-continent. The annual production is about 1½ lakh tons which is again about one-third of the All-India production. Thus in proportion to population Pakistan is better off in this particular product.

(v) *Oil Seeds*.—There are about 24 million acres under oil seeds in India. Of this 92% is in the Indian Union and only 8% in Pakistan. Thus while Pakistan is deficient in oil seeds the Indian Union's position is very strong. The latter has a virtual monopoly in groundnut.

Thus as regards non-food crops Pakistan is predominant in cotton and jute, self-sufficient in tea and tobacco and is deficient in coffee and oil seeds. The small amount of coffee consumed can be imported, but Pakistan must grow more oil seeds in the interests of her cattle and oil products.

5. The Need for Increasing Agricultural Production : Agricultural production is the mainstay of Pakistan. The whole of economic development of Pakistan must ultimately depend upon the surplus produced by our soil. Pakistan has been called a surplus food area. This is true only in a very limited sense. We may be able to spare some wheat in a normal year. But with the least abnormal circumstances like the flood or failure of rains this surplus can easily turn into a deficit, as during the present (1948) year. Moreover in order to feed the East Bengal, which does not produce enough rice even in normal years, we have to exchange much of our wheat surplus with rice. The actual surplus remaining after this transaction does not show a wide margin. The influx of about 20 lakhs more refugees has created more mouths to feed and the population of Pakistan will continue its usual rate of increase. Finally, merely because at given prices there is surplus to export does not mean that the masses are being adequately fed. Our supposed surplus food position therefore should not lead to complacency. If no steps are taken to increase our food resources even this uncertain surplus will dis-

appear within a few years due to the natural growth of population.

As regards our non-food crops, cotton jute and tea are the most important. Cotton will have to be turned into cloth for clothing our masses. The surplus available for export will thus progressively decrease unless production is further increased. We are not getting the best value out of our jute as long as we do not manufacture it into jute goods ourselves and as long as we have to depend upon Calcutta for sending our raw jute to foreign countries. India is trying to become independent of Pakistan in jute. In proportion as she succeeds in these efforts the increase in the total supply of jute is bound to depress its prices in the international market, thus reducing the value of our surplus exports. Pakistan should concentrate upon the production of the best qualities of jute for which some of her districts are specially fitted. It may be possible to transfer some of the land producing inferior jute to the cultivation of rice, thus making East Bengal self-sufficient in food. A policy of proper crop-planning therefore is indicated.

As regards tea, the industry is in the hands of Europeans and Hindus on whose stay in Pakistan we cannot rely. The production of tea will also have to be increased to give us more foreign exchange.

In addition, the area under sugarcane in Pakistan is not adequate for our needs of sugar. We require not merely more sugar mills (which are practically non-existent at the moment) but also more sugarcane production either by proper crop-planning or by aiming at higher yield per acre.

We are seriously deficient in oil seeds which are necessary for feeding our cattle and also as basis for various vegetable oil industries.

Further we must have more land under fruit gardening, forests and fodder for our cattle.

In a word, our land resources are not being properly utilized. We must have more production and achieve it in a planned manner.

Apart from crop planning which will ensure proper proportions of the various kinds of products, production may be increased either by extensive or "intensive" methods or both simultaneously.

From the extensive point of view it is necessary to bring under cultivation the areas which are now 'culturable waste'.

This can be done by constructing irrigation works wherever possible and reclaiming land through drainage where necessary. Intensive cultivation requires the application of the most efficient methods of cultivation in the way of better rotation of crops, better agricultural implements, more scientific manures and above all the use of labour power under conditions giving maximum incentive to the workers. This will necessitate increase in the size of the unit of cultivation and change in the system of land tenure. This subject requires a separate chapter to itself. We may here take note of the irrigation plans of the Government.

6. Irrigation Projects : We have already noted that irrigated area forms about 40% of the total cultivated area in Pakistan as against only 20% in the Indian Union. The finest canal system of the East, if not of the world, is found in the canal colonies of the West Punjab. The Lloyds Barrage of Sind is also world-famous. We shall give below what more is being done to extend irrigation facilities in the various provinces of Pakistan.

(i) *The West Punjab.*—The most important irrigation scheme under construction in the West Punjab is the Thal Project. This scheme was started before the partition of the province and was estimated to take about 10 years to complete. Now it is expected to be completed by 1950. When completed it will irrigate an area of about 18 lakh acres of hitherto barren land. Schemes for colonisation in this area are already under way. Ten lakhs of acres are proposed to be turned into co-operative farms.

The partition of the Punjab has made certain canal-irrigated areas in the West Punjab depend upon the mercy of the East Punjab Government. In the first week of April, on a flimsy excuse, that Government decided to withhold the water-supply of the Dipalpur and the Upper Bari Doab canals irrigating large areas in the Montgomery and Lahore districts. The Dipalpur canal draws its waters from Ferozepore Headworks. This canal is an amalgamation of an old inundation canal system the uppermost of which is the Katora canal constructed during Moghal times. It was therefore proposed to revive the old Katora system to ensure water-supply to the Dipalpur canal. The construction of the link channel was started in the first week of May and completed in record time by volunteer workers. In the meantime as a result of negotiations between the Dominion Governments the water was released but not until the West Punjab had suffered a loss of crops estimated at Rs. 2 crores. The new link will safeguard against similar eventualities in the future.

(ii) *Sind.* The Lower Sind Project of this province will irrigate about 15 lakh acres of new land. It will cost Rs. 20 crores

and will be completed in three years. Sind like West Punjab is a surplus province in foodgrains. The completion of the new scheme will augment her food resources still further though the main product of the area will be superior American cotton.

(iii) N.W.F.P. We have already seen that the Warsak Hydro-electric project will help in irrigating about 70,000 acres of land in Peshawar and Noshera Tehsils. This acreage will be further increased by the Kheski irrigation scheme irrigating about 13,000 more acres. As a result of these schemes N.W.F.P. will become self-sufficient in foodgrains. The present annual deficit is about 50,000 tons.

(iv) *Irrigation schemes of Baluchistan.*—A number of schemes are under consideration by the Government for Baluchistan. Among these are : Anambar River Irrigation Scheme in Dukki Tehsil, Loralai district. It aims at conserving the surface and sub-surface water flowing in the Anambar river by means of sub-surface weir and other irrigation works. It will increase the average cultivation of the area from 900 acres to over 8,000 acres. Another scheme is to construct sub-surface weir and irrigation works at a place about 10 miles from Gumbaz on the Narechi river. This will increase cultivation of the area from about 100 acres to over 3,000 acres. In addition there are smaller schemes for restoration of water supply from loss into the Shingle bed of the Kanchagai river in Zhob district. A dam will be built on the river at a distance of 11 miles from Hindu Bagh. Another scheme will improve the Dukki watercourse by constructing aqueduct and lined channel. Further the Government proposes to dig wells, clean springs, improve Karez channels and build bunds to hold flood waters. The food deficit of Baluchistan at present is about 24,000 tons a year. These schemes aim at making the province self-sufficient in foodgrains.

(v) *Irrigation, Flood control and Drainage problems in East Bengal.*—There is no paucity of water in East Bengal. Rainfall is plentiful, rather excessive in certain parts of the year. There are countless streams spread over the whole province. The main problem is flood control and prevention of erosion. Irrigation problem here is mixed up with soil conservation, drainage and navigation.

Floods have occurred with disastrous regularity in the districts of Chittagong, Tippera and Noakhali. Nothing has been done for their prevention and control hitherto. Long and short term measures are being planned now. There are three types of schemes in hand : (a) Development, (b) Grow-more-food and (c)

Relief and Rehabilitation. There are six development schemes proposed with a total cost of about Rs. 6 lakhs. A Hydraulic Laboratory is to be set up at Dacca and a Hydrological Survey is to be carried out at a cost of Rs. 17½ lakhs. Data will be collected about slopes, inclines and water-levels during the various times of the year. This is to facilitate the development of irrigation, navigation and drainage. Karnafulli flood control and Hydro-electric scheme has already been taken up. Its main benefit will be control of devastating floods in the Chittagong and Tippera districts. Similarly Halda flood scheme has been included in the provincial plan. For conservancy of rivers, bandalling and dredging works have been undertaken.

CHAPTER III

THE PROBLEM OF LAND REFORM IN PAKISTAN

1. Introduction : Much has been attempted in the past by the Central and Provincial Governments through their agricultural and co-operative departments to help the agriculturist. Among the steps already taken are consolidation of holdings, discovery and distribution of better seed and manure and implements, provision of irrigational facilities and co-operative credit. According to some people a more intensive drive on these lines is all that is needed to make the agriculturist prosperous. In fact some people believe that nothing else can be done or at any rate would be dangerous to attempt. This point of view is too conservative and is coloured by self-interest. It is only by attacking the problem fundamentally that material results can be achieved. Good seed, better manure, efficient implements and adequate irrigation cannot yield best results except under conditions to bring about which fundamental changes are required in the relationship between the land and the tiller of the soil. It is because of the resistance to these fundamental changes that the efforts of the Government agencies in promoting better agriculture have not hitherto borne fruit, commensurate with the expenditure of time, money and energy.

2. Two Objectives : Agricultural progress requires two fundamental conditions: Firstly, the agriculturist must have adequate incentive to put forth his best. He must be sure that additional efforts made by him will increase his reward in proportion. It is because of this that a peasant-proprietor is a better producer than a tenant-farmer. The second condition is that the unit of agricultural operations must be large enough to allow the use of improved tools and technique. Land reform in Pakistan, therefore, should aim at two objectives: (a) The unit of cultivation must be enlarged and (b) all intermediaries between the actual tiller of the soil and the state should be eliminated.

Several alternative systems are available for achieving these objectives in varying degrees. Among these the following may be considered:—

- (a) Peasant proprietorship with consolidation of holdings.
- (b) Nationalisation of land with collective farming.
- (c) Nationalisation of land with co-operative farming.

3. Peasant Proprietorship with Consolidation of Holdings:

This will involve in the first stage buying out of the proprietary rights from the non-working landlords and conferring them on the tenants, thus converting the present tenants into peasant-proprietors. After this has been achieved the second stage will be enforcement of Consolidation of Holdings on a compulsory basis.

Consolidation of Holdings has been carried on, on a voluntary basis, for more than a quarter of century now and only an insignificant proportion of the total cultivated area has been consolidated. Apart from the expense, friction and time involved in this process, even if the whole of the land in Pakistan gets consolidated, our problem will not be solved. The average holding in Pakistan is very small, e.g., in 1931 in the Punjab the cultivation unit was less than 9 acres, and in Bengal less than 4 acres, in Sind the ownership holding was about 39 acres but since it is a province of large landlords this is no measure of the size of cultivation. Figures about the size of the unit of cultivation are not available, but the size cannot be very large specially after the rehabilitation of refugees. On such a small unit of cultivation no progressive agriculture can be carried on. Therefore we are not in favour of adopting the first alternative.

4. Nationalisation of Land with Collective Farming: It should be noted that nationalisation of land does not necessarily involve collective farming. On the other hand, collective farming may be adopted without nationalising land. You may nationalise land, but get it cultivated by tenants of the State on the basis of small family units. The State may charge a nominal rent over and above its usual land revenue. This will eliminate the non-working landlord. On the other hand you have collective farming without nationalisation. The land may be owned by big joint-stock companies for instance, and not by the State, while large-scale agriculture may be followed.

Collective farming is not suited for conditions obtaining at present in Pakistan. This method involves very large-scale farming with the help of up to date and expensive machines and requires comparatively little labour. In Pakistan we have no paucity of labour. In fact we have an abundance of it and that labour is used to agricultural work. Too much mechanisation of agriculture will result in wholesale unemployment in the country. Secondly, under the present world conditions even if Pakistan were able to pay for the expensive mechanical equipment it is extremely doubtful if such equipment will be available in quantities required for such a revolutionary change. Moreover the

difficulty is not merely of getting the machines, but arrangements will have to be made for their repairs, keeping them in good gear and supply of parts for replacement etc. Further it will necessitate the supply of skilled mechanical labour in very large numbers and also the supply of source of power in which at the moment we are deficient.

This does not mean, however, that mechanical equipment is to be entirely excluded from our agriculture, and that there is no scope for introducing scientific farming in other respects. It only means that we cannot introduce collective farming on a large scale in this country.

Complete nationalisation of land in the sense of abolishing private property in agricultural land will also not suit Pakistan. Private property in land has great psychological and social value in this country and it will require a revolutionary change in the outlook of the people before they agree to such a change. And it will be unwise to enforce such a change by physical force.

Our main object is to eliminate the non-working landlord since he has proved himself an obstruction to agricultural progress. Even this elimination must be accomplished peacefully and with proper compensation. What is wanted is to buy out the rights of landlords in their lands and thus transfer them to actual cultivators the latter paying for this acquisition in easy instalments over a period of years.

Thus we recommend neither collective farming nor land nationalisation.

5. Co-operative Farming with Peasant Proprietorship: Peasant proprietorship with co-operative farming is in our judgment the most desirable and practicable way of effecting land reform in Pakistan. This would involve, firstly, the buying out of the rights of the non-cultivating landlords. The state will have to fix a definite limit on the quantity of land which an individual peasant family can acquire and all land in excess of this will have to be bought out by the state. The payment to the landlord should be first determined as a fair multiple of land revenue; and it should be spread over a number of years so that the tenant can pay it in easy instalments. The proprietary rights of the land thus acquired will be conferred upon the tenants who were actually tilling the soil before the acquisition of ownership rights by the State. The annual payment, which the state will have to make to the owners, will be charged from these new owners of the land.

After the rights of the landlords have thus been purchased, and ownership conferred on the actual tillers of the soil, the next problem will be that of the unit of cultivation. How to get an optimum size of the unit of cultivation? Here two alternatives may be mentioned :

(a) Each family of cultivators may operate as a separate working unit on the land under its ownership after the holding has been consolidated. But this alternative we have already rejected. Under this system the unit of cultivation will not be large enough to allow progressive agriculture.

(b) Each village may be made a unit of agricultural operations. In the case of smaller villages more than one village may operate together. The land will thus be pooled and will make large-scale scientific farming possible. The management may be elected by the peasants who will work as employees of the management receiving wages in proportion to their work and additional compensation for contribution of land and capital, if any. This would be joint village management. If the managing body represents members of a Co-operative Society formed for this purpose, the system would be called Co-operative farming. Under such a system the Co-operative Society will in fact act as the hub and centre of the social and economic life of the village. Besides managing and supervising the cultivation it will also act as the marketing society, society for better housing, for distribution of good seed and manures etc. In short it will be a Multipurpose Co-operative Society.

As regards methods of production under this system, as already noted, wholesale mechanization of agriculture is justified only in countries in which labour available for work on land is scarce in relation to capital. Since the conditions are the opposite with us, mechanized agriculture will be premature in Pakistan until pressure on land has been considerably reduced through the development of alternative channels of employment. But scientific agriculture need not always mean mechanized agriculture. Scientific methods can also be applied on comparatively smaller farms. Moreover labour-saving devices need not be altogether tabooed. Certain operations like levelling of land, ploughing of large fields, removing of deep-rooted weeds etc., may be done by machines owned by the village or the state and hired out to the cultivators. This saving of labour and energy may be justified even if we have surplus labour. Thus we shall have to adopt a compromise between the age-old family agriculture and the modern large scale farming. Certain operations will be carried on large scale while others will be

looked after by the family as a working unit, the reward varying with the quantity and quality of work done. These details can be worked out in practice quite easily, once agreement on fundamentals has been reached. Our main objective is to get the best out of our land and labour, and to see that the work and its reward are in proper adjustment with each other.

6. Land Reform and the Refugee Problem: Fundamental changes in our land system are also essential for the solution of the refugee problem. The refugees have been distributed over the various Pakistan provinces but they have not yet been absorbed in our economy. How land reform can help in this absorption may be illustrated by the available statistical material with reference to the West Punjab.

We give below a table given by the Director of Public Relations, West Punjab, in a statement¹ published some time ago. The table throws some light on the nature of land distribution in the Province.

	No. of owners.	Total amount of land revenue paid by them. Rs
All owners in the Province	16 lakhs	232 lakhs
Those paying Rs. 500 or more as land revenue	about 1,900	22 lakhs.
Those paying Rs. 50 to Rs. 500 as land revenue	about one lakh	102 lakhs.
Those paying Rs. 5 to Rs. 50 as land revenue	about 15 lakhs	107 lakhs.

“Land Revenue,” added the D. P. R., “differs from place to place and from land to land, but it is roughly proportionate to what may be called land fertility units or the value of the holding of each class.” If the proportion of land revenue paid is the measure of land owned, it will be seen that, according to these figures, about ten per cent. of the total cultivated land is owned by less than 1/8 per cent of the total owners, who pay more than Rs. 500 as land revenue. Again, more than half of the total area is owned by about six per cent. of the owners who pay Rs. 50 or more as land revenue. This indicates the extreme inequalities of distribution of land in the Province.

The average land revenue per acre of cultivated land in the Punjab has been estimated at Rs. 1/15 or say Rs. 2. On this basis, owners of more than 25 acres (paying Rs. 50 or more as land revenue) own 62 lakh acres of cultivated land. Assuming that 12½ acres are enough (in fact it is more than enough) to maintain a family, those who possess 25 acres or more can live

1. “C. & M. Gazette,” dated 21st December 1947.

without cultivating their land themselves. Assuming them to be non-cultivating owners who have given their land on 'half and half' basis of tenancy, these people receive a rent represented by the gross produce of 31 lakh acres of land. By the reform suggested above, this land could be released for settlement of additional peasant families. If each family of five members was given ten acres to cultivate, about 15½ lakhs of refugee could be settled on this land. And this was about the excess of agriculturist refugees that came from the East Punjab over those who left the West Punjab.

CHAPTER IV

INDUSTRIES & INDUSTRIAL POLICY.

1. Industrial Share of Pakistan: The main industries existing in India at the time of partition were Cotton, Jute, Sugar, Iron and Steel, Cement, Paper and Glass. Below are given the relative shares of Pakistan and the Indian Dominion with regard to these industries :—

Industry.	Indian Union.		Pakistan.	
	No. of factories.	Average daily employment.	No. of factories.	Average daily employment
Cotton	...	435	16	20,000
Jute	...	91	nil.	nil.
Sugar	...	151	9	3,800
Iron and Steel	...	35	nil.	nil.
Cement	...	13	5	1,900
Paper	...	21	nil.	nil.
Glass	...	141	4	700
Total	...	887	34	29,400

Thus of the total of 921 factories in these six large industries only 34 or 3.6% were located in Pakistan, while the share of Pakistan in the total employment was only 2.6%.

Taking all the industrial establishments, however, the share of Pakistan was larger though even then far lower than in proportion to her population :

Industrial Establishment and Employment in 1943.

	Ind' establishment.		Employment..		% population (1941)
	Number.	% share.	Number.	% share.	
			1,000		
Indian Union ...	11,391	89.9	26,42	92.4	79.5
Pakistan ...	1,213	9.6	2,50	7.3	19.5
Kashmir ...	71	0.5	10	0.3	1.0
Total	12,675	100.0	29,02	100.0	100.0

Thus while Pakistan contained about 20% of the total population of the whole sub-continent its share of industrial establishment was less than 10% and of industrial employment just over 7% of the total. India on the other hand with about 80% of the total population had over 92% of the industrial establishment.

2. Classification of Industries : A study of the distribution of individual groups of industries reveals further industrial backwardness of Pakistan. Leaving aside the State of Kashmir (Still under dispute) the distribution of main groups of Industries between India and Pakistan was as follows according to 1943 figures¹ :

Groups of industries.	Indian Union.		Pakistan.		
	No. of persons employed (in 000)	% of (1) to the total No. employed in that group of industries.	No. of persons employed (in 000)	% of (3) to the total No. employed in that group of industries	% employed in Kashmir of the total.
	(1)	(2)	(3)	(4)	(5)
Textiles ...	11,49	96.7	32	2.7	0.6
Engineering ...	3,83	89.1	46	10.7	0.2
Minerals and Metals ...	92	92.2	8	7.8	0.1
Food, drink and tobacco ...	3,27	93.1	24	6.9	0.1
Chemicals ...	94	95.8	4	4.0	0.1
Paper & Printing ...	64	93.6	4	5.9	0.3
Wood, Glass, Stone ...	1,17	93.2	8	6.7	0.1
Hides & Skins ...	31	92.0	3	8.8	0.1
Gins & Presses...	1,48	77.4	47	24.7	...
Miscellaneous ...	1,90	90.2	21	9.5	0.2
Total ...	25,93	92.4	20.6	7.3	0.3

Note the exceptionally low share of employment in Pakistan in the textiles and the chemical groups. With the exception of Gins and Presses, Engineering, Hides and Skins and perhaps Minerals and Metals the share in other groups is below the average share. Gins and Presses is the only group in which the share is adequate in proportion to population. But in proportion to Cotton and Jute produced even these are not adequate. Moreover gins and presses involve very simple processes and are no index of industrial development of a country. As far as the important industries of modern kind are concerned Pakistan stands nowhere in comparison even with industrially backward India.

1. Source : "Industrial Establishments in India" 1943.

3. Relative Importance of Industrial Groups : The following table shows the relative importance of various groups of industries in the economy of each of the two Dominions.

Industrial group.	Percentage employed in each group of the total industrial employment in each Dominion.	
	Indian Union.	Pakistan.
Textiles ...	43.0	16.0
Engineering ...	13.0	22.8
Minerals & Metals ...	2.6	4.2
Food, drink and Tobacco ...	11.2	12.1
Chemicals ...	2.8	2.4
Paper and Printing ...	1.7	2.4
Wood, Glass and Stone ...	1.8	4.4
Hides and Skins ...	10.6	1.9
Gins and Presses ...	4.6	23.3
Miscellaneous ...	6.7	10.5
Total ...	100.0	100.0
Total employment ...	26,42,000	2,50,000

Note the relatively high importance of the textile group in the Indian Union. In Pakistan this group comes after gins and presses and engineering. It should be remembered, however, that Engineering establishments in Pakistan consist mostly of railway workshops and other minor repairing units. In India these include coach-building, dock yards, electrical engineering works and ship-building. (See Appendix to this chapter).

4. Industries Entirely Absent in Pakistan : An Appendix to this chapter gives a full list of all the various kinds of factory industries existing in 1943. They are 86 in all, classified into 10 industrial groups. It will be noted that as many as 29 industries of this list are entirely absent in the areas now called Pakistan. Among these are such important industries as jute manufacture, ship-building, iron and steel works, copper smelting, lead smelting, mica smelting, dyeing and bleaching, paper and paper pulp, soap and metal stamping, canning food, tobacco works, etc.

In view of the raw materials available many of these industries could have been established in Pakistan such as jute mills, dyeing and bleaching, paper and paper pulp, soap, canning food, tobacco works etc.

Classification of these industries according to employment further shows that not a single industry employed more than 50,000 workers in Pakistan. In India there were nine such

industries of which five employed more than a lakh persons. Most of the industries in Pakistan employed less than 1000 workers.

5. Reason for Industrial Backwardness of Pakistan : Why have the areas now constituting Pakistan remained industrially undeveloped? In his address to the Industries Conference, called by the Pakistan Government in November 1947, Mr. I. Chundrigar, the then Minister for Industries, attributed this backwardness to neglect and prejudice on the part of the pre-partition Government of India. He gave some instances to prove that the late Government of India did not visualise the setting up of the industries in the Punjab, Sind and East Bengal in spite of the fact that these regions produced large quantities of raw materials like cotton, jute, tobacco, sugarcane, hides and skins. Even the panels appointed by them for the study of development of principal industries did not have adequate representation from what are now Pakistan areas. This may be true of the future plans of industrialisation in the pre-partition India, but does not explain the fact of backwardness in the past. Modern industrial development in India started from the fifties of the 19th century. Why did not the industries spring up in the Muslim majority areas during this period of about a hundred years?

The explanation lies not in the prejudice on anybody's part but certain geographical and historical factors. The early leadership in modern business and industry in India came either from Europeans (especially Englishmen and Scotchmen) or from the Parsees. Many retired officials and army men of the East India Company settled in India and engaged themselves in business. They had business experience, capital and protection of their own Government and India offered scope for good returns. The natives of the country were conservative, illiterate and lacked enterprise and experience of modern methods. The Parsees being a small, intelligent community who had originally come from Persia were free from Indian conservative traditions and soon took to European methods of business.

The European business centres from the earlier times had been located in the Western and Southern coasts of India—Bombay, Calcutta and Madras. This was natural for a seafaring people who came to this country as traders. These places thus became the most important business and later industrial centres. Bombay had the added advantage of a humid climate and access to cotton areas to fit her for an excellent centre for cotton textile industry. Calcutta became the centre of jute trade and industry on account of its being the most convenient port and business

centre commanding the jute areas of Bengal. The Parsees had settled in the Western coast of India and their activities were mainly confined to the Bombay Presidency. Later they extended their enterprises to other areas where factors for industrial location were most favourable. For example, the great iron and steel industry of Bihar is the fruit of Parsee enterprise. It had to be located in Bihar because of the neighbourhood of coal and iron mines. Sugar industry more recently appeared in U. P. because of the dominant position of that area regarding the production of sugarcane.

In the later phases of development some Hindu castes—like the Marwaris—became prominent as industrialists. These were originally bankers and money-lenders, and thus had plenty of capital.

The Muslims lagged behind in all this race, especially the Muslims of the areas now constituted as Pakistan. Firstly, these areas were in the backwaters of the stream of trade and commerce of recent times. European business community was not attracted to such areas and neither were the Parsees. The Hindus were mostly bania money-lenders who thought it a better proposition to get easy returns from lending money to the illiterate and comparatively better off peasantry than to take to industrial pursuit in competition with the more industrially favoured areas of the sub-continent.

As regards the Muslims themselves they were mostly small peasants and some landlords. The former had no capital and the latter no incentive for engaging in industries. The community as a whole was poor. With the passing away of the Moghul Power they had lost opportunities of service in the higher rungs of administration. The British, the successors of the Moghuls, looked upon the Muslims with suspicion and were not anxious to afford them encouragement for national advancement. Many had lost their old estates and were reduced to poverty as the result of the post-Mutiny policy of the British. Moreover the prejudice against taking of interest had also kept them out of the arena of business and industrial enterprise, with extremely few exceptions. Thus they lacked capital, enterprise and business experience. Their factories if any were managed with much less efficiency. As early as 1888 a European factory inspector wrote: "The factories owned by Mussalmans are seldom, if ever, insured, and one which has been twenty years has never had a coat of paint applied to any of the woodwork."¹

¹ Factory Inspector Jones quoted by Buchanan: Development of Capitalist Enterprise in India, p. 147.

Thus the Muslim areas were bound to lag behind in the industrial race under conditions of *laissez faire*. They could only have developed under a deliberate state policy of regional planning which is only a recent idea.

Now that Pakistan is an independent sovereign state these factors have lost their importance. The Government now can take up this matter and make up for the sins of omission and commission in the past. Steps have already been taken in this connection as we shall see.

6. Pakistan's Industrial Policy Defined : Pakistan's future industrial policy was defined by Mr. I. Chundrigar, the then Minister for Industries, in a press conference held on the 2nd of April, 1948. The salient features of this policy are given below :—

(i) Foreign capital : Pakistan would welcome foreign capital seeking investment for purely industrial and economic objectives and not claiming any special privileges provided : (a) the concerns wishing to establish themselves in Pakistan ensure to the nationals of Pakistan participation in manning the technical and administrative services and provide training facilities. (b) When only trade facilities are desired foreign firms register subsidiaries in Pakistan. (c) Opportunities are provided for participation of indigenous capital i.e., in proportion of 51% of shares in the case of cement, coal, cotton, spinning and weaving, fish canning and fish oils, generation of electric power (other than hydro-electric), glass, ceramics, heavy chemicals and dye-stuffs, minerals, preserved and prepared foods, power alcohol, ship-building, sugar, tanning and leather and 30% in other industries. In case, however, the Government is satisfied that home capital is not forthcoming the balance can, by their approval, be subscribed by foreigners.

(ii) Relation of State and Industry : Monopolies and public utilities are peculiarly suited for nationalisation. Among these post and telegraphs, telephone, wireless and broadcasting, railways are already state owned and state managed. As regards road, river and air transport, policy regarding civil aviation has already been announced, road transport has been nationalised by some provinces and the rest will be nationalised. River service will be left to private enterprise for the present.

It is proposed to nationalise the following industries when they are established : Arms and ammunition, generation of hydel power, manufacture of railway wagons, telephone, telegraph and wireless apparatus.

The Government reserves the right to take over any other industry in the interest of security and economic well-being of

the state.

Regarding fiscal policy, the Government will give favourable consideration to claims for reasonable measure of protection to new and nascent industries. Claims for such protection will be examined by a Tariff Board to be appointed as and when required.

In all this development the centre will play a definite role. Central control will be necessary in matters of fiscal policy, location of industry, facilitating procurement and ensuring equitable allocation among provinces and states machinery and raw material in short supply. Further it is proposed to transfer 'development of industries' from the Provincial Legislative List to the Central Legislative List. The idea, however, is not to give exclusive jurisdiction of planning to the centre. Central Planning will extend to the allocation of industrial units to provinces. The location of such units within the provinces and states will be done in consultation with them.

(iii) The Machinery for Planning and Execution. The Pakistan Government originally set up a Development Board to co-ordinate Central and Provincial Development Plans so that available resources are put in the best possible use, to make recommendations regarding priorities among development schemes, in order to remove bottle-necks and difficulties in the way of unified progress in all fields. This Board was absorbed in the Ministry of Economic Affairs created in March 1948. A planning Advisory Board has also been established.

In pursuance of the recommendations of the Pakistan Industrial Conference industrial panels and committees were established by the Central and Provincial Governments to work out detailed plans for various industries. For financial assistance of industries an Industrial Finance Corporation has been established.

7. The Main Difficulties in the Way : The policy as defined above is satisfactory as far as it goes. There are, however, several difficulties in its execution. Pakistan is starting from scratch and has to build up from the very foundations which will necessarily take time. Secondly all machinery and stores have to be imported from foreign countries. For this not only foreign exchange of the right countries is necessary but also the willingness of such countries to sell the necessary machinery. As far as foreign exchange is concerned the position at the moment is not discouraging. We have been allocated a fair share¹ of sterling balances and a portion of it is already available for spending. Moreover we have a favourable balance¹ of trade to

1. For details see Chapter IV, Sections 5, 6 and 7.

the tune of about 40 crores up to the present. A part of these foreign exchange resources is available in dollars *i. e.*, £8 million out of sterling balances up to March 1949. The difference, however, is that there is scarcity of machine goods required by us both in Great Britain and U.S.A. European recovery needs are receiving top priority from America and Britain. Our needs are yet unsatisfied. Even then, however some purchases have been made and are being made in increasing quantities as we shall see in our chapter on Trade.

The second difficulty is regarding skilled labour. We require technicians and managers who are not available in this country. Pakistan nationals are not experienced in industrial management and lack technical training. This scantiness has become even greater on account of the migration of Hindus and Sikhs from Western Pakistan. This difficulty will have to be met by getting foreign experts, by sending Pakistan nationals for training abroad and by establishing necessary training institutions within the country.

The third difficulty is the lack of credit institutions and disorganization of the old channels of trade and commerce due to last year's disturbances and migration of Hindus and Sikhs with their experience of banking and trade, their assets and institutions. It will take time to fill these gaps up, though what has already been done is encouraging.

The fourth difficulty was the preoccupation of the administration of the country with the unprecedented refugee problem. Though in the long run the industrialisation of the country and the rehabilitation of the refugees are inter-connected, for the time being the refugees are a great drag on the resources of the new state and no peaceful planning can be effectively undertaken as long as the immediate relief to the refugees is not ensured. This problem is also being tackled.

The fifth difficulty is the lack of necessary minerals in Pakistan to serve as sources of power and as raw materials for heavy industry. We have practically no coal, no iron and lack several other metals. Our petroleum resources are not adequate, and hydro-electric power yet awaits development. This is the most serious long-term difficulty. An immediate geological survey should be undertaken to discover whatever minerals are to be found under the surface of the earth in this region. There are indications that such a search will not be fruitless. In the meantime we shall have to rely upon imports.

It should be particularly noted that planning for large scale industry should not blind us of the necessity of reorganizing our small-scale and cottage industries. Large-scale industry alone will not solve the problem of providing gainful employment to the vast masses of our country. In a country with enormous and under-employed labour force and with meagre capital resources small scale and cottage industries must play, for a long time to come, the predominant role. There is considerable scope for rationalisation of this kind of industry with particular reference to supply of raw materials, improved tools, technical training and advice supply of samples and designs, standardization of products, improved marketing facilities and financial aid.

APPENDIX TO CHAPTER IV

Industrial Employment in the Indian Union and Pakistan in 1943

Source : Industrial establishments in India.

Figures in thousands

Industry	Indian Union	Pakistan	Industry	Indian Union	Pakistan
I—TEXTILE			23. Copper Smelting	1.7	—
1. Clothing ...	20.9	8.4	24. Lead Smelting ...	0.9	—
2. Clothing Mills ...	646.0	18.6	25. Mica ...	0.7	—
3. Hosiery ...	7.7	1.6	26. Petroleum Refineries ...	2.5	1.4
4. Jute ...	302.3	—	27. Miscellaneous ..	11.8	2.1
5. Silk ...	5.6	0.1			
6. Woollen Corps ...	0.1	—	Total ...	85.4	7.8
7. Woollen Mills ...	12.5	2.7			
8. Miscellaneous ...	19.8	0.1	IV—FOOD		
Total ...	10,15.5	31.5	28. Bakeries etc. ...	3.5	0.7
II—ENGINEERING			29. Breweries ...	3.4	0.5
9. Coach Building ...	18.5	2.2	30. Coffee works ...	5.0	—
10. Dockyards ...	12.9	0.4	31. Dairy Products ...	0.6	1.0
11. Electrical Engineering ...	10.4	0.7	32. Flour Mills ...	4.9	2.0
12. General Engineering ...	104.0	2.7	33. Food Canning ...	0.4	—
13. Electrical General Engineering ...	9.6	14.7	34. Ice and Aerated Waters ...	2.0	0.2
14. Kerosene Tuining ...	7.4	1.2	35. Rice Mills ...	41.9	4.5
15. Metal Stamping ...	9.8	—	36. Sugar Mills ...	84.3	5.4
16. Railway Workshops ...	118.9	21.8	37. Tea Factories ...	64.0	7.4
17. Ship Building ...	35.1	—	38. Tobacco Works ...	29.9	—
18. Steel Trunks ...	2.5	—	39. Water Pumping Station ...	2.6	0.1
19. Tramway Workshops ...	2.4	1.0	40. Miscellaneous ...	26.1	2.4
20. Miscellaneous ...	15.2	2.7			
Total ...	346.7	47.1	Total ...	268.6	24.2
III—MINERALS AND METALS			V—CHEMICALS		
21. Foundries ...	6.9	4.3	41. Chemicals ...	1.0	0.7
22. Iron and Steel ...	60.9	—	42. Bones and Manuresas	16.0	0.4
			43. Dyeing and Bleaching ...	13.8	—
			44. Gas Works ...	1.4	0.1
			45. Indigo ...	0.2	—
			46. Lac ...	2.1	—
			47. Matches ...	9.4	0.4
			48. Oil Mills ...	20.5	1.6

Industry	Indian Union	Pakistan	Industry	Indian Union	Pakistan
49. Paints and Varnishes ...	2.8	0.2	IX—GINNING AND PRESSING		
50. Soaps ...	2.9	—	66. Cotton Gins ...	97.3	29.7
51. Turpentine ...	0.3	0.1	67. Jute Presses ...	9.5	7.7
52. Miscellaneous ...	6.4	negligible	68. Miscellaneous ..	7.2	0.3
Total ..	76.9	3.5	Total ..	1,14.0	37.7
PAPER & PRINTING			X—MISCELLANEOUS		
53. Paper Mills and Pulp ...	18.3	—	69. Brushes ...	1.6	—
54. Printing ...	37.7	3.6	70. Canvas Proofing... ..	1.1	—
55. Miscellaneous ...	2.6	0.2	71. Forage Presses ...	0.2	negligible
Total ...	58.6	3.8	72. Grain Crushing ...	0.2	0.8
VII—WOOD, STONE, GLASS			73. Gramophone Records ...	1.1	—
56. Bricks and Tiles ...	21.4	0.1	74. Jewellery Workshops ...	0.9	—
57. Carpentry ...	7.4	1.5	75. Laundries ...	0.9	—
58. Cement and Lime	—	—	76. Mints ...	6.2	0.9
59. Glass ...	15.4	2.6	77. Ordinance Factories	1,15.7	15.8
60. Stone Dressing ...	18.5	0.4	78. Beads and Combs	0.1	—
61. Saw Mills ...	5.0	—	79. Repairs etc. ...	0.1	0.1
62. Miscellaneous ...	13.3	2.1	80. Rope Works ...	3.4	—
Total ...	90.6	7.6	81. Rubber ...	8.4	0.8
VIII—HIDES & SKINS			82. Sapper & Miners Workshops ...	3.0	—
63. Leather and Shoes	19.4	negligible	83. Stone Works ...	0.9	—
64. Tanneries ...	13.6	1.6	84. Telegraph Works	3.7	—
65. Miscellaneous ...	0.9	0.3	85. Industrial Schools	1.1	—
Total ...	33.9	1.9	86. Miscellaneous ...	25.9	0.3
			Total ...	174.1	18.7
			Grand Total ...	22,65.3	1,82.7

CHAPTER V

INDUSTRIAL PLANS AND DEVELOPMENT

1. Introduction : Pakistan has been only one year on the map of the world and thus one could only expect preparatory work for industrialisation of the country. Not long after partition (in December 1947) an Industries Conference met at Karachi. It set up various committees to advise the Government for the rapid industrialisation of the country. These committees were able to finalise their schemes in about three months' time and in March, 1948, forwarded their recommendations to the Provincial and State Governments and the various ministries of the Central Government of Pakistan.

In a recent press conference (September 1948) Pakistan's Minister for Commerce, Education and Industries, reviewed the progress already made towards industrialisation in different fields during the one year of Pakistan's existence. We give below the salient facts revealed by him.

2. Jute Industry : Government has concentrated its first efforts mainly on the expansion of the Dominions' Jute baling capacity. Orders have been placed for eight presses with firms in the United Kingdom and five in the United States of America. The United Kingdom presses are expected to be in operation by the end of June, 1949. Those from America are expected to reach this country earlier still. These 13 presses when established will increase the baling capacity by 20 lakh bales in addition to the present capacity of 27 lakh bales. As regards the establishment of jute mills, the setting up of two mills is under active consideration of the Government.

3. Cotton Textiles : Pakistan has 12 cotton mills at the moment which supply only 10% of its cloth requirements. The Industries Conference recommended a target of 2.5 million spindles to be reached in ten years. The progress has been held up on account of lack of supplies of machinery and building material.

A mill with capacity of 31,000 spindles at Rahim Yar Khan in Bahawalpur State is expected to start production in 1949 and another of 25,000 spindles at Karachi will be in operation by June of the same year. Orders have been placed in U. S. A.

for machinery for two units, one to be located at Karachi and the other in West Punjab. Two more mills will be located in the West Punjab, orders for the machinery for which have been placed in the United Kingdom. Two mills of East Bengal have ordered 17,000 additional spindles. By the end of 1949 the number of spindles in Pakistan would have doubled from 1,66,000 to 3,32,000.

In addition to these, offers for machinery have been received from U. K. and Japan. Japan has offered to supply us 50,000 spindles by the end of 1950. Offers have also been received from France, Italy and Czechoslovakia. Thus there will be no serious difficulty for obtaining textile machinery from abroad for carrying out Pakistan's plans regarding this industry.

4. Wool: Pakistan produces 26.5 million pounds of wool a year and imports through its land frontiers another 8 million pounds. Two million pounds are required for use by the local cottage industry producing rough blankets and carpets. Government has decided to assist in the establishment of 5 yarn spinneries with a total spindlage of 25,000 spindles. Two of them will be in the West Punjab and one each in the N.W.F.P.; Baluchistan and Sind. They will produce 4.5 mill pounds of yarn a year. Government also intends opening finishing centres in all these regions each having two sets of raising and finishing machines. A maximum of 20,000 spindles will also be permitted to produce one million pounds of worsted yarn annually. Permission has been accorded to two parties to set up woollen and worsted mills one at Karachi and the other in West Punjab. The one at Karachi will start production by June, 1949.

5. Rubber Tyre Industry: Negotiations are in progress with a foreign firm to establish a rubber tyre factory at Karachi, the need for which has been keenly felt for some time.

6. Leather: Pakistan produces 8.11 lakhs of buffalo hides, 44.73 lakhs of cow hides, 53.5 lakhs of goat skins and 20.75 lakhs of sheep skins a year. A conference of representatives of the various branches of the Leather Industry and Provincial and State Governments was held at Karachi in August 1948. It made several recommendations regarding the utilization of these raw materials. They are receiving consideration by the Government. Three joint stock companies with headquarters in West Punjab and N. W. F. P. have approached the Government for financial assistance and their applications are receiving sympathetic consideration.

There are two factories in Pakistan which are manufacturing footwear with the help of machinery. One, located at Lahore, specialises in canvas shoes and the other, located at Karachi, specialising in civilian and army footwear. The industry it is understood is shortly organizing itself into a federation, which would make the bulk purchases of the chemicals, and other materials required by the various factories.

7. Pharmaceuticals: Several parties have shown interest in the development of the pharmaceutical industry. The activities of some will include packing of drugs imported in bulk and of others preparations of pharmaceuticals and drugs from local raw materials. The Government is considering sympathetically their applications for financial assistance. It is also considering whether it would be advisable to participate directly in the financing of the industry and its control.

8. Paper: Raw material for paper making is found in abundance in East Bengal. The Government would like to see established an up-to-date Paper factory in Pakistan preferably in East Bengal. It proposes to utilise services of well known consultants in connection with the planning of a sulphide paper mill which is estimated to cost between Rs. 1 to 1½ crores.

9. Sugar: A 50,000-tons ugar factory is being established at Mardan (N.W.F.P.). It is expected to start production in 1949. The question of utilizing molasses, a by-product of the industry, is also receiving the attention of the Government. It is proposed to erect a power alcohol factory with a capacity of 3,000 gallons a day. Orders for a plant will be placed shortly.

10. Heavy Chemicals: Licences have been issued for the establishment of sulphuric acid plants in Pakistan. Two 10-ton contact plants will be set up, one at Karachi and the other at Rawalpindi. Both plants will be in production next year, orders having been already placed one in U. K. and the other in U. S. A. The location of a third plant is also under consideration. Other minerals which require special attention apart from petroleum and coal are: Asbestos, Antimony, Chromite, Copper, Glass sands, Gypsum, Lead, Lime Stone, Nitrates, Potash and other salts, Sulphur and Strontium.

The mining methods adopted in Pakistan are primitive and wasteful and require considerable improvement. The matter is receiving the attention of the Government.

11. Power Resources: Normal sources of power are coal, oils and water. Our coal resources are limited. Certain oli-

Fields are now being worked in the West Punjab and further prospecting is being carried out in Eastern and Western Pakistan. Until oil is found in adequate quantities Pakistan will have to depend on water power. To develop these resources the Government has set up the Central Engineering Authority with the following duties :—

(i) Prevention and control of floods. (ii) Prevention of erosion and soil conservation. (iii) Prevention of water-logging, and reclamation of water-logged lands by drainage, pumping and other methods. (iv) Improvement of drainage. (v) Development of navigational facilities. The Authority will also co-ordinate the development of electric power, and assist the provinces and states in the investigation, survey, preparation and execution of thermal power schemes and hydro-electric projects. It will adopt a uniform policy with respect to procurement of plant, generation, transmission, distribution of electricity etc. and collect and publish statistics on national power resources.

12. Electric Power Resources : The Industries Conference set down a target of 500,000 k. w. to be aimed at in the next five to seven years. The conference was followed by a rapid survey by Sir Henry Howards, a Consulting Engineer of repute. He agreed with the main recommendations of the conference and suggested the establishment of a central authority to implement these recommendations, and the Central Engineering Authority was established.

We have already referred to the various hydro-electric projects under construction in Pakistan. Apart from these several thermal projects are under consideration to meet immediate requirements.

13. Karachi Industrial Trading Estate : This is an industrial centre to be located about three miles from Karachi with 2,400 acres for factory construction and another 2,645 acres for further expansion. Here intending industrialists would be provided with facilities such as developed land, power, water, roads, railway sidings, postal facilities and telephone connections. Its total estimated cost is Rs. 150 lakhs which will be raised by a loan. The scheme was approved by the Sind Government in Dec. 1947 and before the Central Government took the Karachi area under its control the scheme had also received its approval. It is now the responsibility of the Central Government and necessary action is being taken to implement the scheme.

14 Conclusion : It will be seen that the Pakistan Government has not made even a start in the Industrialisation of the country. Most of what has been done is preparatory work and even that in an unsatisfactory manner. Some applications of parties are under consideration; in other cases licenses have been issued; and in a few cases orders have been placed for plants. There are very few instances in which the work of construction has actually begun. We seem to be still at the stage of planning and not of the implementation of the plans.

To some extent, due to the reasons given at the end of the last chapter, much more could not be expected from the Government. Pakistan is only about a year old and the new country has had to face problems which would have shaken the foundations of a much older and stronger state. There have been basic bottlenecks, like difficulties of getting machinery, lack of skilled labour, undeveloped sources of power, absence of essential minerals etc.

But in spite of all these limitations, we believe achievements could have been greater, if not in quantitative terms at least in terms of the right preparatory work. From the study of what has actually been done regarding planning the programme and its execution, one gets the impression of a lack of proportion and perspective. The approach has not been scientific and systematic. Here and there some industrial lines have been selected. There has been no over all planning embracing in a well co-ordinated and integrated manner all the various sectors of our economy—agriculture, industry, trade, transport, etc.

This is partly due to the defective machinery set up for planning and execution of our economic development. We started with a Development Board which from March 1948 was absorbed into the Ministry of Economic Affairs. This Ministry has no initiative of its own, nor has it any powers to execute its own decisions. It has to depend for both on other agencies and departments.

The name "Ministry of Economic Affairs" does not indicate any definite scope of its work. The term is too vague and every conceivable thing with an economic bearing can be brought under its jurisdiction, thus deviating it from its proper function, which should be concerned solely with the preparation and execution of economic plans. We suggest that the Ministry of Economic Affairs should be converted into the Ministry of Economic Planning and Development. As regards the technical aspect of planning the Ministry should be advised by a body of experts which may be called the Planning Commis-

ion. This will consist of experts of various kinds of economists, agricultural experts, commercial and business magnates representatives of labour, technical experts like engineers and chemists.

The responsibility of approval of the plan and its implementation should rest with the Ministry of Planning and Development. The Geological Survey, the Statistical organization, and the various institutions dealing with economic and industrial research, should be placed under the control of this Ministry. This will ensure a better co-ordination of the various aspects of the plan and its speedier execution.

INDUSTRIALISATION OF PAKISTAN

(Recommendations Forwarded to Centre and Provinces:)

Pakistan, being very anxious to give its economy an "industrial bias", called the Pakistan Industries conference in Karachi from December 13 to 17 last. The Conference had set up various committees to report on the prospects of various industries. These committees have now finalised their recommendations which have been forwarded to the Provincial and State Governments and the various Ministries of the Central Government to enable them to take necessary steps for implementations. As the recommendations cover a vast field they require examination by the various authorities both Central and Provincial.

Hydro-Electrics : The Industries Conference has recommended a priority for Hydro-electric power generation to 5,00,000 kilowatts in the next five to seven years as Pakistan is short of coal and the development of the industries depend upon power. It has recommended that while the Mianwali Hydel Project in the West Punjab, capable of generating 26,000 kilowatts, and the Karnafuli Project in the East Bengal, capable of generating 60,000 kilowatts should be taken up immediately and completed within the shortest possible time, the Rohri and Nara Canal Projects in Sind should be taken up now and completed as soon as possible. It has been suggested that steps should be taken to generate 9,000 kilowatts of power at Karghai in Malakand Agency and preliminary investigation as regards suitability of the possible sites of Warsak on the Kabul River (estimated to generate 80,000 kilowatts) and the Indus (estimated to produce one to two lakh of kilowatts) should be undertaken immediately.

Coal : Regarding coal-mines and the utilisation of coal the Pakistan Industries Conference has recommended that every effort should be made to exploit the present coal-mines in a scientific manner and the target of half a million tons per annum of coal should be reached during this year.

New coal-bearing areas should be surveyed and urgent steps taken to develop them.

Other Minerals and Oil : The recommendations had it that more up-to-date technique evolved in recent years should be adopted for carrying out the survey of mineral resources of the Dominion. Services of organisations in the United States of America, which have long and varied experience of such work, should be indented upon and a competent geophysicist

should be appointed on the staff of the Geological Survey of Pakistan.

Two testing laboratories—one in Eastern and the other in Western Pakistan—should be established. Till these laboratories are established the Naval Laboratory at Keamari in Karachi should be utilised for analysing not only oil, petrol but also coal.

A school for training in drilling should be opened immediately and a Mining School also at a very early date.

The young men, who were till recently undergoing training in Dhanbad, should be deputed to the Royal School of Mines in the United Kingdom to enable them to complete their studies and place their services at the disposal of the state and the people of Pakistan.

The mineral development wing should be strengthened by the appointment of experienced mining engineers and closer supervision should be maintained on the activities of prospectors and lessees.

Utilisation of minerals found in Pakistan should be given precedence over export of such minerals. Of oil the conference recommended that the removal or reduction of customs duty on fuel and diesel oil used for industrial purposes and reduction of freight rates charged on transport of oil should be sympathetically considered.

Cotton Industries: For the development of cotton and textile industry the conference recommended that a Pakistan Cotton Committee should be established for the purpose of improving the cultivation, marketing and manufacture (including ginning and pressing) of Pakistan cottons, on the lines of Indian Central Cotton Committee.

The Pakistan Cotton Committee should draw up a scheme for the distribution of pure and improved seeds in collaboration with the Provincial and State Departments of Agriculture. The staff that is already employed in connection with the schemes of the Indian Central Cotton Committee should be retained and pending arrangements with that Committee regarding the levy in Pakistan of the cotton cess imposed under the Indian Cotton Cess Act, the staff should be paid by the Government.

To finance the activities of the Pakistan Cotton Committee a cotton cess of eight annas per bale of cotton to be imposed, is another recommendation.

The Government should examine the possibilities of improving the marketing and financing of cotton produced in Pakistan through an agriculture credit bank on the lines of those which exists in America, with a view to ensuring fair prices to the growers.

Other recommendations for the development of cotton in Pakistan are: Pakistan should have its own standards of staples; mixing of staples should be prohibited by legislation; and the preparation of standards should be done by the Central Government on the advice of the Pakistan Cotton Committee and arrangements should be made for the training of grades.

Textiles: Regarding textiles, the conference suggested that a target of productive capacity should be fixed at 2.5 million spindles which should be reached in ten years—one million spindles during the first five years and the remaining 1.5 during the next five years.

The one million spindles to be installed during the first five years should be distributed as follows:

West Punjab	3,50,000	Spindles
East Bengal	3,60,000	”
Sind	2,00,000	”
N.-W.F.P.	50,000	”
Bahawalpur State	75,000	”
Khairpur State	25,000	”

Fifty per cent. of the spindles allotted for East Bengal and 25 per cent. of those allotted to other provinces and states should be left uncovered by looms so as to provide yarn for handloom industry.

The mills, established under the plan, should be designed to produce cloth and yarn of different varieties and counts in the following proportions:

East Pakistan—fine and superfine 10 per cent., medium 50 per cent., and coarse 40 per cent.

During the interim period before the textile industry has been finally established efforts should be made to import the yarn required to feed the handloom industry.

Jute Industry: For the development of the jute industry in Pakistan it was suggested that a Pakistan Jute Research Institute for the improvement of cultivation of jute, propagation of pure seed and research on jute fibre, should be established at Dacca with the help of a central grant, and after the jute research institute has been established a pilot plant should be set up.

Thirty lakhs bales of jute per annum should be earmarked for export to foreign countries. Fair prices should be maintained by regulation of the jute crop and by adopting other suitable devices.

Encouragement should be given to the establishment of additional jute presses which would enable the export figure of 30 lakh bales of jute to be reached by 1950-51. The possibility of using the surplus cotton baling presses in the West Punjab for baling jute should be investigated.

In order to increase substantially the size of the exports from the Chittagong port, additional facilities like jetties and godowns should be provided at the port and the highest priority should be given for the supply of steel and other building materials for this purpose.

Necessary measures should be taken for the acquisition of land for the jute pressing factories.

Power for Factories : The schemes to provide 4,000 kilowatts at Chittagong should be pushed ahead at the maximum possible speed, so as to provide power for the jute pressing factories and other industries in East Bengal.

First priority should be given to making steel and building materials available at controlled prices for presses which are proposed to be established in East Bengal.

During the next ten years establishment of jute mills having a total loomage of 15,000 should be aimed at.

Early steps should be taken to provide adequate power at Chandpur to help in the establishment of jute industry there and in view of the scheme for the generation of power at Narayangunj and Chittagong for the establishment of the jute mills at these two places should be encouraged.

The possibility of taking advantage of the opening of two mills of 500 looms each, which have been offered to industrialists in Pakistan and which can go in production in 2½ years should be fully explored.

Co-ordination Between Centre and Provinces : It is recommended that the planning and co-ordination of 27 industries (which include the industries for the production of arms, cement, coal, electrical equipment, glass and ceramics, heavy chemical industry, iron and steel, marine fisheries, paper and pulp, rubber manufactures, sugar, salt, textiles and tobacco) should devolve on the Centre and the implementation and

execution of the plans for the development of the 27 industries should rest with the provinces and states.

Distribution of Units : The following distribution of units between the different areas was recommended by the conference.

Starch Factories : The West Punjab two, N.W.F.P. one and Sind one.

Woollen Spinning Mills : N.W.F.P. one ; the West Punjab one ; Baluchistan one ; Bahawalpur one and Sind two. (For spinning woollen yarns to be utilised for carpets, rugs, blankets and several cottage industries).

Woollen Textile Mills : The West Punjab one and N.W.F.P. two.

Oil Pressing Mills : The West Punjab two and the extension of the existing mill in Bahawalpur.

Oil Refining and Hydro-generation Plant : The West Punjab three and the extension of the existing plant in Bahawalpur.

Caustic Soda Electrolytic Plants and causticising plant : One each in the West Punjab, N.W.F.P. and East Bengal.

Soda Ash Plants : Karachi and Khewra one each.

Sulphuric Acid Plants : One each at Chittagong ; the West Punjab (Khewra) ; Karachi ; N.W.F.P. and Kalat.

Super Phosphates Plants : One each in the West Punjab ; Sind ; Bengal ; N.W.F.P. and Bahawalpur.

Paper Factory : One in East Pakistan.

Match Factory : One in East Pakistan.

Tanneries : Ten in Eastern Pakistan ; two in the West Punjab ; and one each in Sind, N.W.F.P. and Bahawalpur.

Cement Factories : One each in the West Punjab ; Kalat State and the N.W.F.P.

Glass Factories : One unit of hollow arc each in East Bengal ; the West Punjab ; N.W.F.P. and Sind. Two units for bangles in Western Pakistan and one unit of sheet glass in the West Punjab.

Sugar Mills : One each in the N.W.F.P. and Bahawalpur State ; two in the West Punjab and four in Eastern Pakistan.

Soap and Glycerine Manufacturing Factories : One each in the West Punjab and Bahawalpur State.

Manufacture of Drugs from Medical Herbs : One in N.W.F.P.

Tobacco and Cigarettes : N.W.F.P., the West Punjab and East Pakistan should have one factory each.

Ship Repairing: One workshop and dockyard each at Chittagong and Karachi.

Machine Tools: A factory each at Gujranwala (the West Punjab): Sialkot or Wazirabad (West Punjab) and Karachi.

Heavy Oil Engine Industry: One each in the West Punjab and Sind.

Iron Casting Foundry: Two in Sind.

Steel Casting Foundry: One in Karachi and one in Chittagong.

Steel Forging Factories: One at Chittagong and another at Saidpur.

Malleable Iron Foundry: One each in the West Punjab and Sind.

Electrical Furnaces: One in Sind.

Agricultural Implements: One Factory in the West Punjab or Sind; one in East Bengal and two in the N.W.F.P.

Bicycles and Parts: One factory in the West Punjab.

Sewing Machines: One factory in Sind; one in East Bengal and the expansion of the existing factory in Lahore.

Electrical Equipments: (Electrical motors, fans, power transformers and switch gear): The West Punjab one factory and another in Sind.

Small Tools and Cutting Tools: One workshop near Machi tool manufacturing centre.

Fertilizer Factory: It was further suggested that the Government of Pakistan should have the question regarding a fertilizer factory for the manufacture of ammonium sulphates and other allied fertilizers from gypsum, which was available in large quantities in the salt range in the West Punjab, examined by an expert committee.

Standardisation: With regard to standardisation the Industries Conference recommended that a Pakistan standards institution be set up for the purpose of eliminating unnecessary, uneconomic and inefficient standards; selection, determination and formulation of proper standards compatible with economy and efficiency and unification of designs and make-up. Products of industry, conforming to well-defined standards and qualities, require testing by an independent laboratory with sub-laboratories for the following industries which should be established in Western Pakistan with a branch in Eastern Pakistan.

CHAPTER VI

TRADE AND FOREIGN EXCHANGE

1. Some Deficiencies in Production : In a previous chapter we have seen that Pakistan is on the whole self-sufficient in food. She has large surpluses of cotton and jute available for export. She can also spare a fair amount of tea for other countries. In return Pakistan has to import certain essential commodities—both consumer's and producer's goods—to make both ends meet. Apart from the capital goods in the way of machinery and stores, which Pakistan will need for her industrialisation, below is given a list (far from being exhaustive) of some of the commodities of everyday use in which Pakistan is deficient and which must be imported either from India or other foreign countries.

Commodities	Annual Production	Annual Require- ment	Deficiency (—)	Percentage deficiency (—)
Mill-made Yarn (bales of 400 lbs.).	9,000	1,04,000	—95,000	—91·3
Mill-made cloth (bales of 1500 yds.).	51,120	75,00,000	—74,48,880	—99·3
Coal (tons.)	2,88,000	35,00,000	—32,12,000	—91·8
Iron Steel and Corrugated Iron sheets (tons) (from scrap).	25,000	3,16,000	—2,91,000	—92·9
Sugar (tons).	25,000	2,45,000	—2,20,000	—89·9
Kerosene Oil (gls.).	5,000	28,00,000	—27,95,000	—99·8
Petrol (gls.).	15,00,000	16,00,000	—1,00,000	—6·2

It will be seen that, except in the case of petrol where 95% requirements are satisfied from home production, in the case of other commodities less than ten per cent is produced at home. The most glaring case is that of cotton yarn and cloth. Less than 10% of mill-made cotton yarn and less than one per cent of mill-made cloth requirements are satisfied by internal production. This is a country which is one of the leading producers and exporters of raw cotton. Deficiency in sugar is also quite serious (90%) though we are an agricultural country producing large quantities of sugarcane. Deficiencies in cotton manufactures and sugar, however, will sooner or later disappear. As regard coal and iron and steel articles Pakistan will have to depend on foreign trade for a very long time to come.

2. Inter-Dominion Trade : Before partition the trade between what are now Pakistan and Indian Dominion was domestic

trade. Now it has become international trade. Up to 1st March 1948, on account of the Standstill Agreement between the two Dominions, the trade was in effect of the nature of domestic trade, because the agreement provided continuation of the existing economic and commercial relations. There were, however, obstacles in the way of movement of goods across the border due to disturbances and consequent paralysis, especially in the case of East and West Punjab, of channels of trade and transports. Moreover even during the period of Standstill Agreement Pakistan was forced by circumstances to levy export duties on jute and cotton. From 1st March 1948 the Government of India declared Pakistan a foreign country.

In their Budgets for 1948-49 both the Dominions levied certain new duties which came into operation from 1st March 1948. These duties are bound to affect the quantum of trade across the border.

Following are among the export duties levied by Pakistan on goods going to the Indian Dominion :—

- (a) An export duty on raw jute at Rs. 15 per *pucca* bale.
- (b) An export duty on raw cotton at Rs. 60 per bale of 400 lbs.
- (c) A 10% *ad valorem* export duty on raw hides and skins.
- (d) A 10% *ad valorem* export duty on cotton seeds.

It is yet to be seen how the burden of these duties will be divided. To the extent that they lead to a fall in the price of the commodities concerned before export the Pakistan grower and exporter will suffer. So far as the price is maintained near the original level the importer will have to bear the burden.

Pakistan has also levied an import duty on sugar at the rate of Rs. 20 per cwt. This duty is likely to be borne by consumers in Pakistan who are more anxious to buy Indian sugar than Indian producers are anxious to sell to Pakistan.

The Indian Dominion has levied the following export duties :—

- (a) A 25% *ad valorem* duty on cloth and cotton yarn with the exception of handloom products.
- (b) Rs. 80 per ton on oil seeds.
- (c) Rs. 200 per ton on vegetable oils.
- (d) Rs. 200 per ton on manganese.

These duties will most likely fall on the Pakistan consumer who has to depend on India for these essential articles.

3. Indo-Pakistan Trade Agreement of May, 1948 : In spite of these duties, however, the economic inter-dependence of the two Dominions could not be denied. India required Pakistan's surplus food and raw materials, especially jute and cotton. Pakistan on the other hand depended on the Indian Union for coal and manufactured goods of various kinds. It was thought necessary, therefore, to reach some agreement regarding the exchange of essential commodities. An agreement was thus reached on the 26th May, 1948, the provisions of which are given below :—

(a) India was to supply to Pakistan, 21,98,000 tons of coal ; 4,00,000 bales of cloth and yarn ; 80,000 tons of steel, pig iron and scrap ; 7,500 tons of paper and board ; 1,270 tons of chemicals and pharmaceuticals ; 2,500 tons of asbestos cement sheets ; 1,500 tons of paints, enamels and varnishes ; 18,00,000 tyres and tubes ; adequate quantities of leather and footwear, 10,000 tons of Malabar jungle wood ; 50,000 tons of jute manufactures ; 2,000 tons of myrobalans ; 11,00,000 lbs of woollen and worsted goods ; 20,000 tons of mustard oil ; 5,000 tons of groundnut oil ; 2,000 tons of toilet soap ; and 7,00,000 lbs of flue cured tobacco.

(b) Pakistan was to supply to India 50,00,000 bales of jute ; 6,50,000 bales of raw cotton , 1,75,000 tons of food grains ; 1,000 tons of gypsum per day ; 20,00,000 pieces of raw hides and skins ; 20,00,000 maunds of rock salt ; 5,000 tons of potassium nitrate and 550 heads of cattle.

(c) Unless otherwise arranged, supplies were to be made through commercial channels.

(d) India was to restrict the export of raw jute to 9,00,000 bales predominantly of Indian varieties, the bulk of which is not suitable for use in Indian mills and is usually exported.

(e) The agreement was to last for one year *i.e.*, from 1st July 1948 to 30th June 1949.

4. Working of the Indo-Pakistan Trade Agreement : This agreement, however, did not work satisfactorily. Goods did not move between the Dominions according to its provisions. The position may be reviewed with reference to some important individual commodities.

(i) *Jute* : According to the agreement, India was to be treated at par with 'hard currency'¹ countries *i.e.* she could buy jute in the open market till the limit of her quota of 50 lakh

1. See foot note 2 p. 61 below.

bales was reached. Indian mills, however, were slow in buying jute and the market showed signs of depression. Pakistan had two alternatives under the circumstances; either she could export her jute to other countries where it was in keen demand or hold it for the Indian jute mills till the end of the season.

The latter course might have left unsold stocks at the end of the season. Further this might have led to serious price fluctuations since the Indian demand would have controlled the price. Pakistan therefore proposed to fix monthly quotas of exports to India. If India did not lift the quota for the month it would have lapsed and Pakistan would have been free to export it to other countries. This proposal was naturally not liked by Indian interests.

(ii) *Cotton*: Pakistan cotton was also in heavy demand in foreign countries. The total crop was expected to be 13 lakh bales is about one lakh bales less than the previous year. According to the agreement; Pakistan had to supply 6½ lakh bales to India which was half of the total expected crop. To ensure supply to India and to guard against irregular offtake, and thus to prevent price fluctuations, it was decided by Pakistan Government that exports to India should be under a system of licensing. The Government also proposed to fix a monthly quota with a lapsing clause. This again was not acceptable to India.

(iii) *Food grains*: As regards foodgrains Pakistan was not able to meet her commitments to India due to damage to her food resources resulting from floods. Pakistan normally a surplus area in foodgrains was made a deficit area through excessive rains of the 1948 season and the consequent floods in Eastern as well as Western Pakistan. In East Bengal three important rice producing districts, Comilla, Sylhet and Mymensingh, suffered damage in Kharif as well as winter crops by floods. In East Bengal alone, the estimated loss of foodgrains due to floods was 2,50,000 tons of rice. In the West Punjab the loss to Kharif crop was estimated as 1,25,000 tons of wheat and in Sind 1,50,000 tons of rice. The flood all over Pakistan caused damage to 35 lakh acres of land lowering supplies by 6 lakh tons of foodgrains. Pakistan thus had to apply for 160,000 tons of foodgrains from the International Emergency Food Council. Under these circumstances, it was not possible for Pakistan to supply to India the stipulated quantity of 1,75,000 tons of foodgrains.

(iv) *Coal* : As regards the commodities which India had to supply, Pakistan did not receive the full quantity of coal and found it difficult to move her cotton without it.

(v) *Other Commodities* : Pakistan received nothing from India against the quotas of steel, asbestos, cement sheet, sulphuric acid and tyres and tubes etc.

5. Indo-Pakistan Trade Agreement (October 1948). A conference of representatives of India and Pakistan was held at Karachi on October 18 to 20, 1948, in which the difficulties in the way of the implementation of the Agreement of May, 1948, were reviewed. The conference led to a new Agreement which clarified certain points and provided for arrangements for the fulfilment of the provisions of the earlier agreement. This Agreement was later ratified by the two Governments. The main provisions are given below :—

(a) As regards jute the agreement provided that there would be no change in the existing policy of Pakistan regarding jute export to India ; that should circumstances warranted otherwise, India would be consulted before any change in the policy was effected. At any rate no change would be effected till December 31, 1948.

(b) Regarding cotton the Indian delegation stated that the fixation of monthly quotas with the lapsing clause was not acceptable to India and should be reviewed. The representatives of Pakistan agreed to fix an export quota of 360,000 bales for India for the period ending Jan. 31st, 1949, provided that if Indian purchases during this period fell below 325,000 bales, such shortage would be liable to lapse. Pakistan delegation also agreed that during the same period export quotas to other countries and purchase for internal consumption in Pakistan would not exceed 360,000 bales. It was further agreed that consideration of fixation of quota as monthly or quarterly basis for subsequent periods would be postponed and examined in due course by prior consultations in the light of the working of this arrangement as a whole.

(c) As far as the foodgrains were concerned, the Pakistan delegates assured the Indian delegation that Pakistan was most anxious to implement the agreement and that best endeavours would be made to supply the stipulated quantity of foodgrains from the next Rabi crop.

(d) With respect to coal which India had to supply the Pakistan delegation stated that hitherto Pakistan had not received the full quantity of coal promised by India and that Pakistan found it difficult to move her cotton without the supply of coal from India. They, however, appreciated the difficulties of India in this respect. The Indian delegation assured the Pakistan delegation that they realised the importance of coal to Pakistan, and that they would take steps to ensure that full quantity of coal was supplied every month.

(e) Regarding other commodities promised by India, the Indian delegation reiterated their intention of fulfilling the terms of the Agreement. They also agreed that regular supplies of cloth would be made to Pakistan.

(f) Both the Governments recognized that the Agreement must be regarded as a whole and implemented in full and arrangements should be made regarding the movement of goods in accordance with the terms of the Agreement.

It would appear from the terms of the above Agreement that whereas Pakistan gave concrete concessions and commitments the Indian delegation gave mere promises and vague assurances. Pakistan gave up her idea of fixing monthly quotas of jute export, thus putting the jute grower at the mercy of the Indian mill-owners. Moreover, Pakistan committed herself to consult India before any change of policy was effected. As regards cotton monthly quota with the lapsing clause was replaced by a guarantee to India of 360,000 bales of cotton exports up to 31st Jan. 1949. Further Pakistan put upon herself limitations regarding cotton exports to other countries and its consumption at home. As regards India's inability in the matter of her honouring her commitments in connection with the supply of coal to Pakistan, the Pakistan delegation expressed their appreciation of the difficulties of India. In return for this generosity what did Pakistan get? Assurances and promises that India would try to implement the terms of the Agreement!

6. Prospective Trends in Indo-Pak Trade : The main articles that Pakistan exports to India in their order of importance are : Raw jute, raw cotton and wheat. Professor Vakil¹ has estimated their value in a normal year at Rs. 121·5 crores of which raw jute alone will account for Rs. 85 crores. According to the terms of the Inter-Dominion trade Agreement Pakistan will supply 50 lakh bales of raw jute to India. This comes to Rs. 85 crores at Rs. 170 per bale. It is estimated that Pakistan normally will be able to spare for India half a million tons of wheat and 800,000 bales of raw cotton valued at Rs. 17·7 crores and Rs. 18·8 crores respectively.

On the other hand Pakistan is likely to import from India cotton piecegoods, sugar, coal, cement and certain miscellaneous goods like steel, leather and jute manufactures and other metals and minerals.

Of these sugar and cotton goods alone are valued at Rs. 57 crores out of the total value of imports from India of 74½ crores. This gives Pakistan a favourable balance of Rs. 47 crores in her trade with India. It should be noted that Pakistan will one day become self-sufficient in the two most important commodities—cotton goods and sugar—which she has to import from India. It is most unlikely that India will be able to do without Pakistan jute (if not also cotton) for a very long time to come. Pakistan is therefore likely to have a permanent favourable balance of trade with India on the basis of the commodities listed above. This balance can be used in purchasing more coal, iron and other industrials essential available in India.

7. Trade with other Foreign Countries : Pakistan's overseas trade passes through the two ports of Pakistan, *viz.* Karachi and Chittagong. The former is the port for West Pakistan and the latter for East Pakistan. Right up to March 1, 1948, goods could move without any customs barriers (except Pakistan's export duty on jute and cotton) across the frontiers of the two Dominions. It is therefore very difficult to separate the figures of imports and exports passing through these ports according to whether they refer to India or Pakistan. This is especially true of Chittagong. For instance all the tea exported from that port was not of Pakistan origin. The figures therefore are subject to limitations on this account. The second difficulty is that authentic trade statistics are not available from official sources.

1. Vakil, C. N. Economic Consequences of the Partitoin, Appendix IV.

We have thus to content ourselves with whatever figures are available through the Collector of Customs, commercial channels and other similar sources.

With these qualifications the following figures may be noted :—

Period: 15th August 1947				} 7½ months.
to 31st March 1948				
				Rs. crores.
Exports	...	...	...	42.0
Imports	...	...	...	14.9
Balance	...	...	...	+ 27.1
Spread over year	...	...	...	+ 45 crores.

This gives us a surplus or favourable balance of about 45 crores a year. But the surplus is likely to be more than this, though the recently adopted more liberal import policy may act in the opposite direction. Every month so far has shown a favourable balance. The highest figures recorded during the period were during the closing months of February (Rs. 7.6 crores) and March (Rs. 8 crores). While exports increased from Rs. 4.5 crores in January to Rs. 10.3 crores in March 1948, imports decreased from Rs. 1.6 crores in January to Rs. 1.4 crores in February. March, however, showed increase to Rs. 2.3 crores.

Of the total imports manufactured goods formed 65.5%. These included machinery worth Rs. 2 crores, cotton yarn and cotton manufactures about a crore's worth. The raw materials imported were worth 3½ crores of which oil alone accounted for Rs. 3 crores. Food, drink and tobacco were valued at Rs. 93 lakhs.

As regards export about 80% were raw materials. Of the total raw materials 65.6% was raw cotton alone. The export of raw jute from Chittagong was valued at Rs. 7 crores. Actually, however, much more jute was exported from Pakistan through Calcutta since our total crop was valued at Rs. 90 crores last year. Other important exports were wool (1.7 crores), raw hides (1.5 crores) and tea (Rs. 7 crores). Of the latter, tea grown in Pakistan areas has been estimated at Rs. 4 crores. The balance was Indian tea passing out through Chittagong.

As regards the direction of trade the United Kingdom and the United States have been the chief sources of our imports. Over 60% of our total imports came from these two countries. Their importance was almost equal, the United Kingdom's share

being a little larger. Then came Iran which exported petroleum to us to the value of about Rs. 2 $\frac{1}{4}$ crores.

As regards our exports the principal consumers were again the United Kingdom (Rs. 13.2 crores or 33% of the total) and U.S.A. (Rs. 4.7 crores). Then came Belgium with Rs. 4.4 crores, Russia (Rs. 4 crores) Italy (Rs. 3.4 crores), France (Rs. 3.3 crores), Australia (Rs. 1.4 crores) and Spain (Rs. 1.1 crore).

Thus our exports are more spread out than the sources of our imports. This is due mainly to the wide demand for our jute in the world.

8. Our Foreign Exchange Resources : Our capacity to import essentials of industrial development like machinery, mill-stores and skill depends upon our foreign exchange resources. Part of these, however, will have to be used for importing necessary consumer goods.

Our foreign exchange resources in a particular period consist of :

- (a) The value of our export surplus.
- (b) Minus any liability for any imported services etc.
- (c) Plus the sterling balances released to us during the period.

We have seen that our favourable balance of trade with India comes to about 47 crores on a rough estimate. Similarly our favourable balance with the rest of the world comes to about the same figure (Rs. 45 crores). With the present standards of imports and exports on trade account alone we can command foreign exchange near about Rs. 100 crores a year.

Now what are our liabilities to foreign countries? We have very few foreign insurance companies working in Pakistan. Foreign personnel in the services has been greatly reduced. We have very small number of foreign firms engaged in industry and trade. We have no foreign loans to pay except to India. The payment to India will begin from 1952 and we shall have to pay about Rs. 8 crores a year. We may have to pay for foreign shipping services. Even allowing for all these expenses a major portion of the foreign exchange earned by us will be available for importation of necessary capital goods for our industrial development. This is apart from the future growth in our production and the share of sterling balances allotted to us. Let us assess the value of this share.

9. The Release of Sterling Balances : We need not explain here how sterling accumulated to the credit of (undivided) India in London. Suffice it to say that just before the division of the country (15th July 1947) the Sterling Assets of the Reserve Bank of India amounted to £1160 million. Regarding the utilization of this balance a temporary agreement for a period of six months was reached on 14th August between the Government of India and the British Government.

According to this agreement the sterling balances of India were separated into two accounts. No. 1 Account was to be the main operative account to which were to be credited the amounts released from the accumulated balances and all current earnings. The No. 2 Account was to contain the remainder of the accumulated balances which was to be available for certain classes of transactions mainly of a capital nature. All current expenditure was to be debited to Account No. 1. India and Pakistan agreed to draw on those accounts by mutually agreed arrangements.¹ An amount of £65 million was credited to this account.

Through a tripartite negotiation (between U. K. Pakistan and the Indian Union) this agreement was extended up to 30th June 1948. Provision was made for a separate account for Pakistan which was opened with the Reserve Bank of India. To this was to be transferred £10 million as a working balance, £6 million from the No. 2 Account and the balance carried forward from 1947 which was estimated at about £4 million. This brought the total to £20 million. Regarding the drawing of hard currencies² by Pakistan, it was agreed that Pakistan would not draw more than £3.3 million in the half-year ending June 1948.

These six monthly arrangements were found to be very inconvenient in practice. They prevented the formulation of long term and co-ordinated trade policies. As a result of negotiations in June last as finalised through exchange of letters between the Finance Minister of Pakistan and the British Chancellor of Exchequer the existing agreement with modifications has been extended for a further period of three years ending June 30, 1951. The main provisions of the new arrangement, as far as Pakistan is concerned, are :—

(i) Of the balance available in the Pakistan No. 1 Account on June 30, 1948, the sum of £3 million shall be regarded as an

1. For this arrangement see Sec. 11, below.

2. "Hard currencies" are dollars or currencies which can be converted into dollars or gold. Other currencies are called in contrast "soft currencies".

addition to the working balance; increasing that balance to £12 million.

(ii) There shall be transferred from the No. 2 to No. 1 Account of the State Bank of Pakistan in the period July 1, 1948 to June 30, 1949 (a) the sum of £5 million, forthwith, and (b) further sums not exceeding £5 million, for the purposes of meeting Pakistan's external expenditure on special requirements (including purchase of goods and execution of capital projects), for the resettlement and rehabilitation of refugees. These special transfers shall be made as and when required by the Government of Pakistan for these purposes.

(iii) The Government of Pakistan undertake to limit expenditure in "hard currency" areas during the period July 1, 1948 to June 30, 1949, to a maximum of £5 million. This figure has been agreed in the light of Pakistan's need for supplies necessary for development of her economy, in particular of her productive capacity.

(iv) Pending further consultations regarding the extension or replacement of the Agreement, and in order to enable Pakistan to prepare plans in advance, the Government of the United Kingdom undertake that in addition to the balances then existing on the No. 1 Account a further sum of at least £5 million shall be transferred in the twelve months from July 1, 1949 to June 30, 1950, and a further £5 million in the ensuing twelve months. Further, any part of the special transfer referred to above which remains unspent on June 30, 1949, shall be available for the same purpose until June 30, 1951.

(v) Without prejudice to these agreed arrangements the question of Pakistan's requirements in respect of refugees may be raised again if desired in the course of the further consultations envisaged above.

(vi) As regards sterling pensionary obligations of the Dominion of Pakistan and its Provinces it is agreed that Govern-

1. For the purpose of this paragraph the term "hard currency" areas is meant to include:—

The whole of the Continent of North, Central and South America and adjacent islands, but excluding Brazil, Chile, Uruguay, and any territories which are part of the Sterling area, the Dutch Monetary area or the French Franc area, the Belgian Monetary area, Japan, the Philippines, the Portuguese monetary area, but excluding Portuguese India, the Joint U.S.—U.K. Zones of Germany, provided (a) that no more than £750,000 of any surplus earned by Pakistan with Japan shall be taken into account for the purpose of determining Pakistan's hard currency earnings and (b) that this may be varied by agreement between the two Governments.

ment of Pakistan will pay to the Government of the U.K. a capital sum of £ 8,166,848 and that in consideration of this payment, which will be made not later than August 15, 1949 the U.K. Government will pay to the Government of Pakistan during each of the financial years a sum ranging from £375,000 in Sept. 1948 to £7,500 at the end of fifty years. The amount payable in each year will be paid in twelve equal monthly instalments on the first working day in each month. The first six monthly instalments in the financial year 1948-49 will, as a special case, be paid on September 1, 1948.

The British Chancellor of the Exchequer in one of the letters readily recognized the special position of Pakistan in view of her need to develop her economy for the first time as an independent state. "I should like to assure you," he wrote to the Pakistan Finance Minister, "that the Government of the U.K. appreciates your problems and, within the limits of what is possible, will do its best to help."

10. Utilization of our Exchange Resources Thus the sterling available from the accumulated Assets in London will be as follows:—

Releases up to June 30 1948:—

Current balance	...	£10	million.
From No. 2 Account	...	£6	"
Balance from 1947	...	£4	"
<hr/>			
Total on 30th June 1948	...	£20	"
Of which hard currency	...		" £3.3 million
Releases from July 1st 1948 to June 30, 1949	...	£10	million
Of which hard currency	...		" £5 million
Tentative releases from July 1st 1949 to June 30, 1951	...	£10	million
<hr/>			
Total up to 30th June 1951	...	£40	million
Of which hard currency			" £8.3 million

So far Pakistan has not utilized even the last releases of £20 million, nor the £15 million accruing to her from her own earning through export surplus. Thus Pakistan had £35 million (Rs. 466 crores) at her disposal on 30th June 1948. Another £20 million (Rs. 266 crores) will be available for the next three years in addition to her own earnings through exports. At a conservative estimate of Rs. 70 crores a year (including balance with India) this should come to Rs. 210 crores.

Our total available foreign exchange will thus come to :—

As on 30th June 1948	...	466 crores.
Add sterling releases from 1st July 1948 to 30 June 1951	...	266 crores.
Pakistan's net exports for three years	...	210 crores.
Total.		942 crores or £71 million.

This money is available for expenditure in foreign countries in the interest of our industrial development during the coming three years. Out of this about Rs. 108 crores (£8·3 million) is available for the present to be spent in hard currency areas. These resources, however, can be increased by negotiations. Producer's goods are not available in quantities required by Pakistan. Until recently strict control was exercised on the importation¹ of consumer's goods. It was suggested to the Government to relax these controls instead of hoarding the released balances. This is being done to relieve scarcity of essential consumer goods, but it is necessary to exercise great circumspection lest these valuable resources are frittered away by mere luxurious living on the part of a small section of the people. The Government should expedite its industrial plans and utilise these resources for building up the foundations of our economy.

11. Division of Sterling Balances: So far as regards our share in the amount as released by the British Government. But what about Pakistan's share of the total amount outstanding? For the purpose of division of Sterling balances and the Empire Dollar Pool² the following procedure was agreed to by a Financial Agreement between the two Dominions :—

According to the agreement for the division of assets and liabilities between India and Pakistan the position of the note circulation in Pakistan was to be determined as on 30th September 1948. Pakistan Notes, that is, notes inscribed with the words "Government of Pakistan" were to be issued from 1st April

1. This control was imposed in the middle of 1947 by the Government of undivided India. The Pakistan Government has more or less maintained the same restrictions. Imports of certain non-essential luxury goods were prohibited. Other consumer goods were licensed on a quota basis. Restrictions were imposed on remittances abroad. Imports of foods, capital goods and raw materials as well as certain essential consumer goods were allowed freely.

2. Empire Dollar Pool was created during the war to conserve foreign exchange resources of the British Empire for war purposes. It is a fund containing foreign exchange resources of different sterling area countries with the Bank of England. Members of the Sterling area can obtain their foreign exchange from this fund and they are expected to keep their foreign exchange earnings in sterling with this Fund.

1948. The people of Pakistan were to have the opportunity of converting the existing Indian Notes into Pakistan Notes. Assets equal to the total liability in respect of Pakistan Notes were to be transferred to Pakistan after 30th September 1948. Different types of assets, such as gold, sterling securities, India rupee coins and Indian rupee securities were to be transferred in proportion in which they were held in the Issue Department of the Reserve Bank on 30th September 1948, subject to the following arrangement: The sterling assets of the Issue Department and the Banking Department of the Reserve Bank of India as on September 30, 1948 were to be taken together. Deductions were to be made from this total for lump payment to H.M.G. for pensions etc. Out of the balance, a sum in sterling, which along with the gold held in the Issue Department was to be equal to 70% of the total liabilities of that Department on 30th September 1948, was to be allocated between the two Dominions in the ratio of the liability for notes in each Dominion. Of the remainder 17½% was to be allocated to Pakistan. By this calculation Pakistan was to get additional sterling in excess of what was decided by the Pakistan Monetary System Order.¹ This excess amount was to be sold to Pakistan in return for Indian rupees from the frozen part of the Sterling balances.

1. See chapter VIII, Sec. 1.

CHAPTER VII

TRANSPORT AND COMMUNICATIONS

1. Introduction: It has been well said that 'Transport is civilisation'. Easy means of transport and communication are of the utmost importance for the economic development, social progress and political stability of a country. From the economic point of view transport expands the area of division of labour, facilitates the movement of raw materials from their place of production to the place of their utilisation; in return it helps the movement of goods from producing centres to consuming centres. All this results in more and better production, in levelling up the deficit areas and in the economic absorption of surpluses of the surplus areas. Economic history of all advanced countries shows that their economic development was accelerated if not actually initiated by increased facilities of transport. The Indian continent consisted of self-sufficient village units before the coming of Railways and Roads, which broke down this isolated and hence backward economy.

Socially speaking, improved transport facilities encourage the mixing and mingling of the people, mind has impact upon mind resulting in stimulation of mental processes, relaxing of hide-bound traditions and conservative habits and encouraging of a fresher and progressive outlook on men and affairs. They promote the spread of education, make possible medical relief wherever necessary and enrich in a thousand other ways the material, intellectual and moral pattern of social life. Politically, transport facilities allow quick movements of armies and equipment to strategic points, thus make the defence of the country more economical and more effective. Communications and transport also help in the maintenance of law and order within the country.

In the future plans for the development of Pakistan, therefore, provision of easy and cheap means of transport and communications should be given the highest priority. At the moment our position in this respect is not what it ought to be. With an area about one quarter of and a population about one fifth of the total Indo-Pak sub-continent, Pakistan has inherited about $\frac{1}{7}$ th of Railways and metalled roads.

Compared to more advanced countries facilities of transport in Pakistan are extremely inadequate. Thus for every one lakh of population while Canada has 465 miles of Railways, U.S.A. 224, South Africa 164, and U.K. 46, Pakistan has less than 10 miles. Similar is the position as regards Roads.

The main forms of transport in the modern world are : (1) Railways, (2) Roads, (3) Waterways, (4) Aviation. It would be interesting to investigate what is Pakistan's position with respect of each of these.

2. Railways in Pakistan : By the division of the country seven out of nine Railway systems went intact to the Indian Union. The remaining two, i.e. the Bengal-Assam Railway and the North-Western Railway had to be divided on the basis of location within the physical boundaries of each Dominion.

In addition Pakistan got a portion of the Jodhpur-Hyderabad Railway. The mileage under each of these shares is given below :—

(1) N.W.R.	Miles
(1) Strategic	1873
(2) Commercial	3110
(2) A.B. Railway	
(1) Broad Gauge	503
(2) Metre Gauge	999
(3) Jodhpur-Hyderabad Railway	
• Metre Gauge	319
Total	6748

It will be seen that commercial broadgauge is about one-half of the total, falling to the share of Pakistan. Out of the rest more than half is strategic which does not pay its own way and the remaining metre gauge, whose capacity for carrying traffic and passengers is much smaller, apart from the difficulties that it introduces in the matter of through traffic etc.

Pakistan Railways in addition to their inadequacy had to face serious difficulties during the period immediately after partition. In the first place they had to arrange an Inter-Dominion transfer of about 1½ lakhs of Railway employees who had opted for

Pakistan. Secondly on account of the sudden movement of non-Muslim employees, specially in the upper ranks of the Railway service, the running of Railways became a problem and the services had to be seriously curtailed. Added to this was the serious shortage of coal for which Pakistan depended on India. Ticketless travel was another problem which was cutting into the meagre finances of the country, and the last through not the least was the stupendous refugee problem. Hundreds of thousands of refugees were to be transported most quickly from areas in India where their lives were in constant danger and brought to camps, and from there to be spread over the various parts of Pakistan.

All this service was to be done free of charge. No wonder in this confusion ticketless travel spread like an epidemic disease, it being very difficult to distinguish who was and who was not a refugee even though refugee trains were segregated.

All these problems were met with varying degrees of success by the Pakistan authorities. The problem of surplus staff created by more persons opting for Pakistan than could be absorbed in Pakistan. Railways was a big headache to the Government. At one time it was costing Rs. 17 lakhs per month. To retrench them would have been not only cruel from the humanitarian point of view but it was unwise also politically speaking. Arrangements therefore were made to train these people for alternative employments in other categories where there were shortages, double shifts were introduced in workshops, private employers and Railway contractors were asked to absorb some of them. Regional Employment Exchanges and Provincial Governments were requested to absorb as many of them as possible. To meet the loss due to this vast expense of the surplus staff a vigorous economy drive was launched. The North-Western Railway Service Commission was abolished, some gazetted posts were retrenched others were kept unfilled, a committee was appointed to fix new cadres of gazetted posts. With these measures was brought about some sort of a stability in the Railway finances.

As regards the problem of shortage of coal the number of train services was drastically cut down; train services in the N.W.R. at one time were a bare 12% of the prepartition days. To economise coal the most important step taken was the conversion of locomotives from using coal to those using oil.

On August 15, 1947, N.W.R. had ninety coal burning locomotives. By July, 1948, 52 of these had been converted into oil burning locomotives. Another step taken in this connection was to import coal from other countries. By the middle of 1948 2,6950 tons from U.S.A. and 17,544 tons from U.K. had been imported. Arrangements were also made to import 15,000 tons of coal from U.K. per month to supplement the supply of 100,000 tons of coal from India. The Government also contemplates arranging imports of coal from Turkey and Iran. In the meantime attempts are being made to increase the output of coal in Pakistan itself.

As regards the refugees the Railways worked to the maximum of their capacity and faced the crisis bravely. By now they have succeeded in evacuating all the refugee camps in the W. Punjab. The menace of ticketless travel was met by introducing flying squads of ticket checkers, supervised by officers, surprise checks by means of Road vehicles and erection of barbed wire fences for the control of unauthorised persons at the Railway stations. Special Magistrates were appointed to deal with the culprits summarily and penalties for ticketless travel were enhanced. As a result normal conditions were restored.

3. Railway Finances : We have already noted the various factors which impinged upon the finances of the Railways following the partition of the sub-continent. The working of the first 7½ months from 15th August 1947 to 31st March 1948 brought about an estimated deficit of Rs. 150 lakhs, the receipts amounting to Rs. 182 lakhs and expenditure including interest to 19,70 lakhs. As a result of the various steps taken to improve the conditions the Finance Minister was able to announce a small surplus of Rs. 3 thousand for the year 1948-49.

In anticipation of the expected deficit it was decided in January, 1948 to increase the Railway rates and fares by about 22 per cent. With effect from 1st April, 1948 the mail fare was increased at 5 pies per mile for third class, and 7½ pies per mile for inter-class passengers. The fares for the ordinary trains remained unaffected. These increases were expected to yield Rs. 4 crores per annum on the basis of normal train services. As already noted steps were taken to prevent ticketless travel which also brought good results.

It should be noted that the Railway Budget which was a separate Budget for India has been absorbed in the general Budget for Pakistan. The Finance Minister thought it an unnecessary refinement under the new circumstances to have either a separate Railway Reserve Fund or to maintain the distinction hitherto

made between the strategic and commercial lines. The Minister, however, gave the assurance that this amalgamation would not mean any relaxation in the matter of running the Railways on a strictly commercial basis in maintaining proper commercial accounts. The depreciation fund was to continue and provision was therefore made for it at the usual rates.

Development programme. In the capital section of the Budget the Finance Minister provided Rs. 153 lakhs, for the year 1947-48, and Rs. 550 lakhs for the year 1948-49 in respect of Railway works programme. Of this provision Rs. 80 lakhs were to be chargeable to the Depreciation Fund in the former year and Rs. 150 lakhs in the latter year.

The provision for 1947-48 mainly represented expenditure on works in progress and the provision for the year 1948-49 was to cover expenditure on works necessitated by partition and certain development works like expansion of harbour facilities at Chittagong. In this was also included a sum of Rs. 2 crores for the purchase of Mymensing-Bhirap Bazar and Khulna-Bagerhat sections of the East Bengal Railway and for the purchase of the rolling stock and other equipment for the Sind section of the Jodhpur Railway.

4. Railway's Future Developments : As regards future developments we understand that the Railway Department has already started survey work in connection with a new Railway line to link Khulna with the East Bengal Railway. This is necessary to avoid crossing the Indian territory which creates many practical difficulties. The Department has also sanctioned 26 new broad gauge passenger steam locomotives for the East Bengal Railway. In addition plans are being prepared to obtain a few broad gauge main line Passenger-cum-goods Diesel Electric Locomotives, for experimental purposes on the Karachi-Lahore section of the N.W.R. Further steps have also been taken to replace old and worn-out broad gauge and metre gauge carriages on the Pakistan Railways. One hundred new broad gauge passenger carriages for N.W.R. and 125 new metre gauge passenger carriages for East Bengal Railway have also been sanctioned.

All this is for the good. We would suggest, however, that the Government should try to convert the metre gauge system into the broad gauge ones in the interests of efficiency, economy and convenience of traffic. There has been some dispute over the purchase of Rolling stock for the metre gauge section of the Jodhpur-Hyderabad Railway from the Jodhpur State. It would

have been better if Pakistan had not attempted to purchase this stock. These 319 miles should have been converted into a broad gauge system and the rolling stock already in possession of Pakistan, could have been transported to East Pakistan to be used on the metre gauge there. Later on as the metre gauge stock deteriorated it could have been replaced even in East Bengal by the broad gauge type of Railway.

Another suggestion that we would make relates to the improvement in the classification of passengers. At present there are four classes—First, Second, Intermediate and Third. The amenities provided for the First and the Second Class are more or less the but same, the cost of the First Class is about double that of the Second Class. There is no justification for this distinction. At the moment usually First Class carriages go empty. Only such people travel in them who are paid either by the Railways themselves or some other department of the Government. This merely means that the extra earnings of this class come from the Public Exchequer itself, while the net loss is the cost of running these empty carriages. They have become all the more redundant since the introduction of the Air traffic the expense of which is only slightly higher than the First Class fare.

At the other end are the Third Class carriages which are more fit to carry luggage and animals than human beings. Their amenities, if they have any, have been the subject of much criticism for years. The comforts of this class must be at least at the level of what is now called the Intermediate Class. In fact the Authorities should go little further and provide electric fans to these compartments. Thus we would suggest that instead of four there should be only two classes for passengers one providing the comforts and facilities of the present Second Class and the other of the present Intermediate Class. The former may be called the First Class and the latter the Second Class. The fare of the First Class should be roughly 2½ times that of the Second Class.

5. Roads : The table that follows indicates the position of Pakistan as regards Roads of various kinds.

Provinces.	Roads Maintained by Local Authorities								Total length of all Roads
	Roads main- tained by P.W.D.								
	Municipalities				District and Local bodies				
	Metalled	Unme- talled	Metalled	Unme- talled	Metalled	Unme- talled	Metalled	Unme- talled	
Sind ...	226	463	273	86	95	11052	594	11601	
N W.F.P. ...	1260	906	140	170	19	1461	1428	2537	
Baluchistan ...	2618	27	36	7	3	4810	2657	4844	
E. Bengal ...	707	672	514	543	2063	58912	3284	60127	
W Punjab ...	1728	1064	638	418	831	10707	3247	12189	
Pakistan total	6548	3132	1601	1224	3061	86942	11210	91298	
India's Total...	50293	16634	10340	7593	41166	207755	82,299	231812	
Pakistan's total as percentage of India's total	21.3		15		7.4		14	39	

It is clear from the above table that out of 88,299 miles of metalled roads which existed in the pre-partition India, Pakistan has obtained 11,210 miles or about 14% of the total. This is an inadequate share whether looked at from the point of view of the relative area or of the relative population of Pakistan as compared to the Indian Dominion. As far as the unmetalled roads are concerned Pakistan's share comes to 39% which is a much higher proportion than warranted by its area and population.

The table further reveals that while in the total metalled roads Pakistan's share is 14%, in the metalled roads maintained by the P.W.D. her share is over 21 per cent. It is well known that Road construction in India by the P.W.D. was undertaken mainly for strategic reasons. Therefore, it is that more than half of the metalled roads in Pakistan are those maintained by P.W. Department and are mostly strategic roads. Their utility for economic purposes is only secondary. They are parallel to the Railway lines and thus create a further problem which Pakistan will have to face sooner or later when normal conditions return, that of Rail-Road competition. Another remarkable fact revealed is the extremely meagre share in the metalled roads maintained by District Boards. This is only 7.4 per cent. This indicates the backwardness of our rural areas as far as the provision of good roads is concerned. Most of the roads in the countryside are unmetalled—a fact which is also revealed by the table. Thus the present position suggests that Pakistan must, (a) increase the mileage of metalled roads in the country, (b) special attention should be given to the rural areas where road facilities are extremely meagre, (c) the new roads constructed should be made particularly with an eye

on the economic needs of the country. In other words they should serve as feeders to the Railways and not as competitors. In our road programme we should aim at linking all the important centres of population with each other, and all the important centres of production and marketing with some or the other of Railway stations. It is only thus that we can make our roads as well as our Railways contribute their proper share to the development of the country.

Another point that should receive attention is the fact that the usual wooden cart is the greatest enemy of the metalled roads. It increases the rate of deterioration of the roads. If these carts could have wheels of pneumatic tyres the life of the roads could be enormously increased. The Government would save large amounts spent on their repairs. It would pay the Government to subsidise the supply of such wheels to the owners of these carts. The traffic of wooden, wheeled carts should be banned on metalled roads.

6. Nationalisation of Road Traffic : Road traffic until recently has been a field for cut-throat competition among private adventures. They supply the worst kind of service at the highest cost they can extract out of the people. Moreover before the last war their unscrupulous methods had endangered the financial foundation, of the Railways by accentuating the problem of Rail-road competition. This problem will arise again after the present abnormal conditions have passed away. The best solution of this difficulty is to nationalise all road traffic.

Some provinces have already established their Transport Authorities over certain sections of the roads. This process should be accelerated and adopted by all the provinces of Pakistan. When both the Railways and the roads are under the control of the State the problem of their co-ordination will present no serious difficulties. In addition this step will greatly help in the improvement of provincial finances. It is already fully realised that the provinces are being starved of funds since their sources of revenue are of an inelastic nature. Income from road traffic will be a good new source and a source that will expand with the economic development of the country.

7. Inland Waterways : Water transport is among the oldest and cheapest methods of moving goods and men. It is cheap because it involves very little of overhead expenditure in the form of permanent ways signals, stations, road constructions etc. It is specially useful for carrying bulky commodities like coal, timber etc. Its main drawbacks are the slowness of speed, the

necessity of a particular kind of configuration of the country and perennial water supply. In Pakistan the plains of the West Punjab, through which pass the five famous rivers are well suited for transport purposes. In East Bengal also the Brahmaputra and its tributaries are navigable for thousands of miles. Inland water transport in India did not receive adequate attention on the part of the Government. The British Government was more interested in the development of Railways which they regarded as of greater importance from the political and strategic points of view. Now that Pakistan has become an independent country, the Government should give proper attention to this most cheap and useful method of transport. Improvement in this connection can be achieved mainly by three methods: (1) Improving the navigability of rivers by deepening their beds and controlling their courses and supplying other amenities and conveniences on the way; (2) by constructing new artificial waterways wherever possible. Canals in the Punjab and Sind could be used for this purpose by enlarging them and deepening them and by constructing bridges under which traffic could pass. (3) as far as possible, power-driven boats should be introduced instead of the country-craft as at present.

Eastern Pakistan is much more suitable for water transport since it has a network of rivers and water-channels. If these water courses are properly trained and improved they will solve not only the problem of transport, but also the problem of periodic floods which now and again lead to enormous damage of life, property and crops. We have already referred to certain schemes in hand in this connection in a previous chapter.¹

8. Shipping: Prepartition India had no merchant marine worth the name. Though it commanded 3% share of the total world trade, it possessed only 24% of the total world tonnage. The total tonnage of its seventy ships came to 1.5 lakh tons and these ships handled about a quarter of the Indian coastal trade, which was about 2 p.c. of the overseas trade of the continent. As a result of division Pakistan was left with no shipping since there were no shipping companies registered either in Karachi or Chittagong. Recently a Muslim Company has been registered at Karachi the total tonnage of whose two ships is not more than 15,000 tons.

In Karachi Pakistan has one of the best ports in the world. Our second port *i.e.* Chittagong, is also being developed and soon

¹ See Chapter 2, Section 6 (V).

will become an important centre of trade. These two ports are potentially of very great importance, one for trade with the countries of South East Asia and the other for trade with the Middle Eastern countries and Europe. It is of the utmost importance for Pakistan to have a first class Mercantile Marine. Foreign trade is going to be a very important factor for the prosperity of Pakistan. Moreover since the two parts of the Dominion are separated by over a thousand miles of foreign territory, increase in sea communications will be a valuable alternative.

As far as human material is concerned Pakistan already possesses well trained sailors. Out of the total of 250,000 sailors in pre-partition India as many as 200,000 were Muslims. This shows the aptitude of Muslims for this type of work. We shall be short of officers for which purpose the Government must provide training facilities. The training ship for cadets, "The Defferin" now belongs to the Indian Union. The Pakistan Government must arrange for its own training ship for this purpose.

Possibilities of purchasing ships out of our share of Sterling Balance should be investigated.

9. Air Communications : Air communications are of special importance to Pakistan because the Eastern and Western parts of the country are separated by a distance of over a thousand miles of foreign territory. Recently India has introduced the Permit System for those crossing the border to Pakistan and Pakistan has also followed suit. Hence there will be difficulties in the movement of people by the overland route. The sea route is very long, expensive and inconvenient. Moreover, it consumes an inordinate amount of time.

Air communication therefore is likely to become the main means of travel between East and West Pakistan especially for people whose movements are necessitated by economic, political or administrative reasons.

Thus along with other reasons which apply to all the countries of the world, Pakistan has an additional reason for giving attention to this particular means of transport. It appears that the Government of Pakistan is fully alive to this necessity.

At the time of partition there was only one Air Transport Company registered in Pakistan i.e. the Orient Airways Ltd., but its operations were limited to the Calcutta-Akyab-Rangoon service. Under the Standstill Agreement with India this service

was allowed to continue and new services were introduced under a temporary agreement enforced from 1st Oct. 1947. Later, Air services were also started from East to West Pakistan, and from Karachi to Quetta, Lahore, Rawalpindi and Peshawar. Services were also started between Calcutta, Dacca and Chittagong. From March 11, 1948, a service was introduced from Karachi to Ahmedabad and Bombay. As a result of these services the average monthly mileage covered by the Orient Airways increased from 41,880 miles at the time of partition to 1,43,983 miles in June, 1948. During the same period the number of services increased from one to seven and the total mileage of routes from 685 to 4960 miles.

On December 4, 1947, the Government announced their policy regarding the long range problem of Air Transport, according to which the operation of Scheduled Air Services were to be left to private enterprise subject to control and regulation by the Government through a system of Licences and definite allocation of routes. The number of companies was to be limited to two only with Pakistan capital and under the control of Pakistan nationals. Further, an Air Transport Advisory Board was set up whose recommendations were accepted by the Government. The two companies to whom the Air Transport Licences have been granted are 'The Orient Airways Ltd.' and 'The Pak Air Limited'. The services and the minimum frequencies to be operated in each direction by the two companies have been fixed. Government's policy regarding Air Transport also provided for the formation of a company to provide common facilities required by the Air lines and by the Royal Pakistan Air force, particularly facilities for repair and overhaul of aircrafts and training of aircraft mechanics and maintenance of engineers. For this purpose in June, 1948, the Government approved the formation of a company to be called "Pakistan Aviation Ltd." which was to be financed, directed and controlled by the Government and the two Pakistan Air lines in partnership. In this company Government has a controlling interest. The Airship Hangar at Karachi Airport, has been taken over by the company for its operations. It has been estimated that this organisation will ultimately be required to overhaul more than seventy air frames and 400 engines annually, requiring a staff of at least 500 technicians.

At the time of partition there were two flying clubs in Pakistan, Karachi Aero Club, and Northern India Flying Club at Lahore. Provision has been made to subsidise them during the current financial year.

Financial assistance is also to be given to an additional club to be started at Dacca, which will cater for the requirements of Eastern Pakistan. In Karachi Pakistan possesses one of the finest airports in the world. It lies on the international trunk route and its further development should be a matter of the first importance for Pakistan.

The Government of Pakistan soon after partition notified its adherence to the Convention on International Civil Aviation and to the International Air Services Transport Agreement. It has also become a member of the International Civil Aviation Organisation and of the Commonwealth Air Transport Council. Pakistan inherited from undivided India her obligations under agreements for operations of Air services, with the U.S.A., France and the Netherlands. Now we have concluded Transport Agreements with other countries including India, Ceylon and soon an agreement will be reached with the United Kingdom.

As regards the future policy the Pakistan Government can act in two directions, (1) subsidisation of Air Transport Services between Eastern and Western Pakistan and (2) Provision of Insurance against risks of Air Travel.

The Air travel between Eastern and Western Pakistan is very costly and is beyond the pockets of the poor and middle classes. In the interest of creating bonds of solidarity through frequent contacts between the citizens of Pakistan living in these two regions, it is necessary that Air travel between them should be encouraged by making it reasonably cheap for the people of moderate means and this can only be done through a subsidy on the part of the Government.

As regards Insurance, it may be pointed out that Air crashes have been rather frequent in the world in recent years. Mostly people are scared on account of these mishaps. The policy of insuring the risks of Air travel will go a long way in removing at least part of the fears which people entertain about this form of travel these days.

CHAPTER VIII

CURRENCY, BANKING AND INSURANCE

1. Pakistan (Monetary System and Reserve Bank) Order 1947 : Pakistan became an independent sovereign State on the 15th of August 1947, but it was not possible for her to have an independent Currency and Banking system at such a short notice. To cover the transition period, therefore, the Pakistan (Monetary and Reserve Bank) Order, was issued on the 14th of August. The main provisions of this order were :—

(a) The Reserve Bank of India was to continue to be the sole note-issuing authority in Pakistan until September 30, 1948. "India Notes" issued by the Bank were to be legal tender for the same period. The Bank, however, was to issue "Pakistan Notes" after March 31, 1948. From 1st October 1948 the Pakistan Government was to make its own arrangements for issuing currency notes.

(b) After September 30, 1948, assets of a value equal to "Pakistan Notes" were to be transferred from the Issue Department of the Bank to the Government of Pakistan. The Government of Pakistan was, on the other hand, to accept "India Notes" at par until 31st March 1949 and assets of value equal to such India Notes outstanding in Pakistan were to be transferred from the Issue Department to the Government of Pakistan.

(c) The rupee coin and subsidiary coins issued by the Government of India were also to continue as legal tender in Pakistan for at least one year from the date of issue of the corresponding Pakistan coins. Such coins were to be put into circulation by the Reserve Bank after March 31, 1948 and India coins were to be used only to supplement Pakistan coins to avoid short supply. It was also provided that the Pakistan Government would make its own arrangements for issue of coins after September 30, 1948.

(d) The Reserve Bank was to continue to perform its usual functions in Pakistan as well and was to act as the banker of the Government of Pakistan up to September 30, 1948. It was, however, decided that it would manage the public debt, issue of loans and exchange operations on behalf of Pakistan only up to March 31, 1948.

(e) The Bank was also to perform its functions in relation to the scheduled and non-scheduled banks up to September 30, 1948 in the same manner as was being done before the establishment of Pakistan.

2. The Need for Earlier Establishment of Pakistan's Central Bank : The above order was issued in the interest of smooth transition of Pakistan to an independent currency and banking system, which was to be established by the 30th September, 1948. It was assumed that the Reserve Bank would act impartially in matters concerning the two Dominions and that the Government of India would show full co-operation. When, however, differences arose between the two Governments over the implementation of the financial agreement arrived at between them, Pakistan realised that she could not count upon the impartiality of the Reserve Bank, which was entirely controlled by Indian interests. The Reserve Bank showed reluctance to transfer the cash balances of the Government of Pakistan to its account at the instance of the Indian Government. This made the Government of Pakistan think of establishing her own Central Bank earlier than the date fixed in the Pakistan Monetary System and Reserve Bank Order. This could not be done without a fresh agreement with India and thus negotiations were undertaken to this end in March 1948. An agreement was reached according to which the Reserve Bank of India was to cease to function as the Central Bank of Pakistan from July 1, 1948.

3. The State Bank of Pakistan : The State Bank of Pakistan was inaugurated on July 1, 1948 to take the place of the Reserve Bank of India in Pakistan. Its inauguration, as the Qaid-e-Azam pointed out, symbolised the sovereignty of our State in the financial sphere.

In composition and constitution the State Bank more or less follows the lines of the Reserve Bank of India. It has a fully paid-up capital of Rs. 3 crores divided into three lakh shares of Rs. 100 each. Of the the total capital 51% is subscribed by the Government and the remaining 49% is open for public subscription. Thus majority control has been retained by the Government. To avoid concentration of capital in a few hands it is provided that no one subscriber should hold more than 500 shares. The shareholders will receive a cumulative dividend of 4 per cent. and the surplus profits will be used to build up a reserve fund of Rs. 3 crores.

The superintendence and direction of the affairs and business of the Bank are entrusted to a Central Board of Directors

consisting of eight members of whom five are nominated by the Pakistan Government and three elected by the shareholders. The Governor of the Bank appointed by the Pakistan Government is an ex-officio Director.

4. The Functions of the State Bank : The State Bank will perform the usual functions of a Central Bank. Thus :

(i) It is the banker of the Central and Provincial Governments as well as of other banks in the country.

(ii) It has the sole right of issuing currency notes and is responsible for managing the currency of the country.

(iii) It is the custodian of monetary reserves, including the reserves of foreign exchange earned by our trade and commerce.

(iv) It is responsible for floatation and management of public loans on behalf of the Central and Provincial Governments.

(v) It will act as adviser to the Government of Pakistan on all matters relating to monetary problems in the country.

(vi) Over and above these functions, the Bank has been charged with the responsibility of taking all possible steps for ensuring stability in the economic sphere so far as this can be done by monetary action. It has also to see that commercial banks are following sound methods of business. It has to ensure sound credit conditions to allow a smooth flow of trade and commerce in the country.

Pakistan is thus in a position to have a sound basis for its financial systems. With the establishment of her Central Bank the country has also qualified for applying for membership of the International Monetary Fund and International Bank. We understand that application has already been made for membership of the two institutions.

5 Pakistan Coins and Notes : According to the Pakistan Monetary System and Reserve Bank Order of 1947, as already explained, Pakistan had to have its own currency after March 31, 1948. Therefore notes and coins of Pakistan were put into circulation from the 1st April, 1948. "Pakistan Notes" were "Indian Notes" inscribed with "Government of Pakistan" in English and Urdu. Pakistan coins are of distinctive design and are issued in the same categories as Indian coins. Pakistan notes of distinctive design could not be issued because the Dominion had no Security Printing Press. Arrangements have been concluded with a British firm for a Security Printing Press for Pakistan for printing currency notes and other security documents. The factory will be in working order by November 1949. New Pakistan notes have already been put in circulation. They were printed in Great Britain.

6. Banking Position Before Partition: Before partition there were 3,146 total offices of Scheduled Banks in India of which 98 were Head Offices. Of the Head Offices 13% and of the total offices 20% were located in areas later demarcated as Pakistan. In the case of non-Scheduled Banks (with capital and reserve of over Rs. 50,000) which had a total of 2,205 offices including 619 Head Offices, the Pakistan areas contained 25% of them. Thus in proportion to population except for Head Offices of Scheduled Banks Pakistan's share was not at all inadequate.

As between the two parts of Pakistan, however, banking facilities were unequally developed, Western Pakistan being better off. Thus 10 out of 13 Scheduled Banks and 153 out of 157 non-Scheduled Banks (Head Offices) were situated in the Western Pakistan. When it is remembered that Western Pakistan contained only one-third of the total population of the Dominion this inequality of banking facilities becomes all the more glaring.

Although Pakistan was on the whole well supplied with banking facilities the actual business transacted in these areas was much smaller than in the rest of the sub-continent. Thus immediately after partition (22nd August 1947), of the total of 1033 crores demand and time deposits only 104 crores or 10% related to banks in Pakistan. And of the 419 crores worth of Advances and Bills discounted only Rs. 45 crores worth were done in Pakistan. Clearing House Returns relating to the year 1946-47, also stress the same point. The total clearing for the year was Rs. 7168 crores of which only 350 crores or 5% was accounted for by banks in Pakistan. The proportion accounted for by Pakistan areas was even less (3%) in 1938-39.

The lower banking business done in Pakistan areas is mainly explained by the agrarian character of the economy of these regions.

7. Effects of Partition on Pakistan Banking: Banking in India including Pakistan had always been a close preserve of non-Muslims especially the Hindus. Muslims had been scrupulously kept out even from clerical employments in these institutions. Moreover non-Muslims had fought tooth and nail to the last minute against the creation of Pakistan. When Pakistan became a certainty—long before actual partition—Hindu and Sikh bankers started transferring their assets and their Head Offices from the Pakistan areas to places now in the Indian Dominion. This tendency was accelerated as soon as the country was divided. Thus it is estimated that out of 29 Joint Stock Banks in the West

Punjab, 27 had transferred their offices to the East Punjab and Delhi. They also took steps to reduce their commitments by calling off their advances. The lead in this matter was given by the Punjab National Bank Ltd. Such steps were taken as early as March 1947. This was done partly for security reasons but mainly as a protest against the foreshadowed division of the country or, as some would hold, with the motive of paralysing the economic life of the new State.

On the eve and immediately after division, when large-scale disturbances took place in the Punjab, the Hindus and Sikhs migrated out of the Western Pakistan provinces especially the West Punjab and N.W.F.P. This movement drained these areas of almost all the employees of the various banks and the country was faced with a serious crisis.

8. How the Government Met the Situation : The Government took several steps to restore normal banking facilities in Pakistan. In the first place the following guarantees were given to Banks to create confidence :—

(a) Banks properties used as offices, godowns, residential quarters for bank clerks and officials would not be requisitioned without ascertaining that the Bank concerned proposed to open at the station in due course or not.

(b) Bank should be free to secure protection of police etc. for necessary purposes as a matter of course, against payment to the Government according to an agreed schedule.

To facilitate settlement of claims the Government made the following arrangements :—

(a) Each Bank was to declare one of its offices both in India and Pakistan as clearing house for transfer of accounts.

(b) Each Bank was to open at least one central office in Pakistan where it could consolidate work of all its branches and start paying out to depositors.

Apart from this the Government undertook arrangements for training of Muslims for service in banks. They also agreed to give facilities to banks to survey their financial position.

There had been complaints of the banks refusing to cash cheques of the Pakistan nationals and also to hand over securities kept in their custody. The Government issued an Ordinance to meet this situation. The Ordinance empowered the Government to investigate such complaints and, if satisfied of their *bona fides*,

to order payments and in case of non-compliance to realise assets of the bank sufficient to discharge such liabilities.

The Government also allowed, especially in the West Punjab, the removal of valuables from safe deposit vaults and lockers through an application to the Custodian of Evacuee Property for a permit. In granting such permits the custodian had to satisfy himself that no claims against the applicant in respect of the valuables concerned were pending.

In spite of all these steps, however, very little success was achieved by the Government in persuading the non-Muslims to continue their banking business in Pakistan. The gap had to be filled by Muslim banks and Muslim staff. The Muslim banks expanded their business and Muslims were recruited to work in place of the non-Muslims that had left. The gap is being gradually filled and the worst of the crisis is over. The newly created State Bank is providing facilities for the training of Muslim young men in banking and they are taking to this occupation in growing numbers.

9. Recent Banking Trends: The set-back to Banking in Pakistan due to the causes considered above and post-partition of paralysing trade and industry is reflected by the table given below :—

Statement showing the position of Scheduled Banks in Pakistan from 22nd August 1947 to 16th July 1948.

(In crores of rupees)

Date :	Demand Liabilities	Time Liabilities	Cash	Advances	Bills Discounted
22-8-47	65	39	5	44	1'32
26-9-47	65	38	4	43	1'00
24-10-47	61	33	5	38	1'94
31-11-47	74	31	5	38	1'00
26-12-47	80	26	4	37	1'00
23-1-48	86	23	4	41	1'00
27-2-48	82	21	4	39	0'92
26-3-48	80	20	4	39	0'86
23-4-48	83	19	4	37	0'82
28-5-48	82	18	3'84	33	0'60
25-6-48	86	18	3'70	33	0'61
16-7-48	91	16	3'2	24	0'42
Increase + decrease —	+26	-23	-1'8	-20	-0'90

Note the steady increase in demand liabilities and fall in time liabilities, cash, advances and bills discounted. This shows the contracting business of the banks and accumulation of idle

funds kept at the command of the depositors. This contraction of business is explained by the exodus of non-Muslims who had almost monopolised the trade and industry of the country. The gap thus caused has not been filled yet by the incoming refugees who have not yet settled down properly in their new homes. The increase in demand liabilities is presumably due to the money deposited in current accounts by the refugees who do not wish to lock their funds up for long periods under conditions of their unsettled life. It should be noted that while time liabilities have decreased by Rs. 23 crores, demand liabilities have increased by Rs. 26 crores during the period of eleven months since the partition. Thus the total money deposited with the banks has remained about the same with a tendency to increase. When things get settled into their normal routine the banking business in Pakistan is sure to revive.

The following table compares the position in Pakistan with that in India with respect to the charges in banking business over the same period. In corers of rupees :—

	Pakistan			Indian Union		
	22-8-47	16-7-48	% Change	22-8-47	16-7-48	% Change
Demand Liabilities ...	65	91	+40	625	688	+11.1
Time Liabilities ...	39	16	-39	314	314	no change
Cash ...	5	3.2	-36	36	37	+ 2.8
Advances ...	44	24	-45.5	359	405	+12.8
Bills discounted ...	1.32	0.42	-31.8	15	15.7	+ 4.6

Demand liabilities of Indian Banks increased by Rs. 63 crores as against Rs. 26 crores in the case of Pakistan Banks. But due to the relatively bigger size of the total figure in the Indian Union the percentage increase is only 11.1 as against 40 in Pakistan. Note the heavy percentage fall in time liabilities, cash, advances and bills discounted in Pakistan as against fair increase in all these respects in India, excepting time liabilities which were maintained at the old level.

The comparatively favourable position of India is natural in view of the fact that the disorganisation caused by disturbances affected a much smaller proportion of the total area in that large country as compared with Pakistan. Moreover there were no exodus of those engaged in banking business and in most of other industrial and commercial pursuits.

10. Effects of Partition on Insurance : Like trade, industry and banking, insurance was also mainly in the hands of non-Muslims in India. Further, the Pakistan areas had in proportion to population much smaller number of insurance companies doing

*business as the following table reveals :—

Location of Head Offices of Insurance Companies 1946.

		Indian Union	Pakistan	Percentage share of Pakistan in the total
Indian Companies	...	218	21	8.9
Non-Indian Companies	...	99	2	2.0
All Companies	...	317	23	6.8

Statistics regarding the location of branch offices are not available, but as far as Head Offices are concerned Pakistan's share was about one-fifteenth of the total as against the population proportion of one fifth.

Partition and the disturbances which accompanied and followed it affected insurance companies in two ways. Firstly, due to the great loss of life and property that occurred the companies had to face heavy claims on them. Secondly, the movement of non-Muslims, who were controlling this business out of Pakistan dealt a heavy blow to this aspect of our economic life as it did to so many others. Many of the insurance companies transferred their offices and assets from Pakistan to the Indian Union. The result may be seen from the table given below.

Location of Head Offices of Insurance (Indian) Companies.

Date	...	Indian Union	Pakistan	Total
30th Sept. 1946	...	218	21	239
15th Nov. 1947	...	236	9	245
Change (number)	...	+18	-22	+6
Change (per cent)	...	+8.2%	-57%	+2.5%

Thus within a period of about a year while total number of companies increased by 2.5% and companies in the union by 8.2%, their number in Pakistan decreased by almost 60%.

11. Inter-Dominion Agreement: With the movement of Insurance Companies' offices and assets from Pakistan the interests of the policy-holders in Pakistan were bound to be in jeopardy. To safeguard these interests, the Pakistan Government entered into an agreement with the Indian Government in December, 1947. According to this agreement :

(a) Companies which had moved their head offices from Pakistan were acquired to advise the Reserve Bank through the Government of India that 15 per cent. of the statutory deposits made by them with the Reserve Bank were to be deemed to be held on account of the policy-holders resident in Pakistan, until

the Superintendent of Insurance had determined the appropriate percentage of policy liabilities pertaining to persons resident in Pakistan.

(b) An undertaking was given on behalf of these insurance companies that their assets, other than statutory deposits with the Reserve Bank of India, will not be reduced or withdrawn from Pakistan to the detriment of Pakistan policy-holders.

(c) The Pakistan Government on their part agreed to accord all reasonable facilities, in respect of protection and investigation of claims, for their representatives who had to come to Pakistan areas to investigate and appraise claims which had already arisen or which were to arise in future. The Government of the Indian Dominion also agreed to accord reciprocal facilities. It was further agreed that both the Governments would advise the companies concerned to send out agents and investigators, as far as possible, belonging to communities which *prima facie* would not require protection.

(d) As regards complaints of delay in settlement of claims, it was decided that such claims should be referred to the Ministry of Commerce in each Dominion. Such claims, however, it was recognised, could only be settled after the companies concerned got their records, equipment etc.

(e) For the removal of records, equipment, etc. permission of the Custodian of Evacuee Property was necessary to whom application was to be made in this respect after instructions were issued to the Reserve Bank regarding the 15% deposit referred to above.

In spite of this agreement Indian Companies showed no interest in continuing their business in Pakistan. Foreign Companies established in Pakistan, however, began to expand their business. Some of them who had only branch offices in Pakistan took steps to organise separate head offices in Pakistan. The gap caused by the exodus of non-Muslim trained staff was filled to a fair degree by recruitment of Muslims, British and other non-Hindu and non-Sikh minority people.

12. The Riot and Civil Commotion Ordinance 1947: To cover riot risks the Pakistan Government promulgated an Ordinance in December 1937—"The Riot and Civil Commotion Ordinance". It was initially to apply to cotton ginning and pressing factories and was necessitated by the abandonment of such factories by owners after the Punjab disturbances. It was intended to reassure the owners against any future risks. The

Ordinance required all persons owning or having an interest in a factory, or in the stocks therein including factory buildings to insure all property insurable. Heavy fines were prescribed for the contravention of the provisions of the Ordinance.

13. Policy with Regard to Deposit of Securities : Under the Standstill Agreement with India *status quo* was to be maintained in respect of Insurance Companies functioning in the two Dominions. It was expected that Pakistan will have its own arrangements from April 1948. With the ending of the Stand-Still Agreement, therefore, Pakistan adapted the Indian Insurance Act of 1938 and set up a separate office of the Superintendent of Insurance to administer the Act. It became necessary now to clarify Pakistan's stand with regard to the deposit of securities by the Insurance Companies operating in Pakistan.

Under Section 7 (1) of the Act of 1938 insurance companies were required to keep deposits with the Reserve Bank of India for various classes of business carried on by them. When the Act came to apply to Pakistan the companies were to be under obligation of duplicating their Indian deposits in Pakistan. But since the volume of business in Pakistan had not increased the Pakistan Government by amending the Act required the companies to deposit only half of the amount specified in the original Act.

The Indian Companies, however, were reluctant to comply with this condition. This matter was brought before an Inter Dominion Conference held in April, 1948 at Karachi. During the Conference Pakistan insisted that deposits should be made in Pakistan securities. Naturally, Pakistan being a new state required large amounts of capital. Indian delegates, however, did not accept this position. Ultimately a compromise was reached according to which new business in Pakistan was to be done in Pakistan currency and undivided returns were to be kept as hitherto till the end of the year (1948). From 1949 separate accounts for Pakistan were to be shown. This was however only a partial and interim solution and further talks in the future may be necessary. In the meantime Indian Companies have decided to transact new business in Pakistan.

To give further facilities to Indian Companies the Government of Pakistan had announced that besides the securities of Pakistan Central and Provincial Governments the following other securities were also to be regarded as approved securities :—

(i) Securities charged on the revenues of Pakistan Central and Provincial Governments or guaranteed fully as regards principal and interest by them. (ii) Pakistan National Savings Certifi-

cates. (iii) Any debenture or other security for money issued under the authority of any Act of a legislation in Pakistan or by on behalf of a Port Trust or Municipal Corporation. (iv) Securities of the undivided Government of the Punjab and Bengal.

The real hitch, however, was that while about 150 branches of Indian Insurance Companies were operating in Pakistan, only about half a dozen Pakistan firms were engaged in business in India. The stake of Indian Companies in Pakistan was much larger than that of Pakistan Companies in India. Then there was the general antipathy of non-Muslim interests towards Pakistan. It is not surprising therefore that the conference failed to achieve any appreciable amount of agreement.

13. Internal Organisation of Insurance in Pakistan : Whatever the difficulties as regards inter-Dominion relations in this matter, internal organisation of this business had to be looked after. Steps were therefore taken to complete arrangements for the issue of licences to Insurance Agents and also regarding the procedure of registration of companies.

As regards the issue of licences it was decided to grant ante-dated licences to such agents who applied for the same before July 15, 1948. Regarding procedure for registration it was announced by the Superintendent of Insurance, that the companies should submit their applications for registration supported by documents, statements and certificates, together with proper receipts for payment of the registration fee as prescribed in the Act.

The companies were also required under Section 7 of the Act to have statutory deposits with the Government on the basis as specified with reference to various kinds of insurance business.

The position with regard to Provident Insurance Societies was also made clear. It was announced that all such societies, registered under the Insurance Act 1938, or the Provident Insurance Societies Act, 1912, were required to register themselves again or renew their registration in Pakistan, before June 30, 1948.

Thus Pakistan is already a long way on the road to putting her house in order with respect to Currency, Banking and Insurances.

CHAPTER IX

PRICES IN PAKISTAN

1. Introduction : Prices play a very fundamental part in the working of an economic system, especially a system which involves freedom of enterprise. They regulate production, consumption, exchange and distribution of goods and services. On the production side they are the indicators of the channels into which the various productive resources must be allocated. It is they which guide the activities of the producers by helping them on the one hand in assessing the costs involved and on the other in measuring the gross incomes that they can expect from their respective enterprises. To the consumers, again, they are a guide in the matter of spending their incomes over a variety of alternative consumer's goods available. Further they help in the adjustment of the aggregate demands of the community to the available aggregate supplies and thus help in the rationing of the supplies in accordance with the pulls exercised by the consumer's demands.

By controlling the movements of prices the community can control the whole working of the economic system. Thus prices on the one hand are an expression of the working of economic forces within a country and on the other they are an agency through which the working of those forces can be controlled and diverted into predetermined channels. In a planned economy also prices can be used as an effective organ for carrying out the purposes decided upon by the planning authority. In a free economy, prices control economic forces and in a planned economy the working of economic forces is controlled by exercising control over prices.

The study of prices, hence, is one of the basic studies in Economics.

2. Influences Determining Prices : Broadly speaking there are two sets of influences which determine price movements. On the one hand there are the institutions and policies which regulate the flow of purchasing power into the hands of the people, whether as currency or credit instruments or the rate at which these instruments change hands in the process of serving

as media of change. The Central Bank as regulated by the law of the land, is now universally recognised as the currency authority while the credit instruments are within limits under the control of other banking institutions. The rate of the circulation of these instruments of currency and credit is determined by a large number of factors among which are communication facilities, currency and banking habits of the people, the degree of confidence in the prevailing system of production and finance etc. This is what may be called the supply side of money. As against this, is the demand side for money, which is represented by the amount and varieties of goods and services available for exchange and the rate at which they pass from hand to hand in business transactions.

Disturbances in prices, therefore, can arise either because units of purchasing power have increased in greater proportion than goods and services available in the country for exchange; or assuming the volume of instruments of exchange have remained constant, there has been a fall in the tempo of production or there has been destruction of goods on account of one reason or another, thus creating relative scarcity of exchangeable commodities. These influences may affect both the money and the goods sides either in the same direction or in the opposite directions. Thus they may either neutralise their respective effects on prices or accentuate them.

It is through the controlling of these influences coming from either the supply or the demand side that it is possible to control price movements.

3. Social Consequences of Price Fluctuations: It is necessary for the healthy and smooth working of an economic system that price movements should be kept within reasonable limits. This is so because abrupt changes in prices create far reaching distortions in the economic system and result in redistribution of real resources among the people involving injustices to some classes and extra gains to others. This is so because money is a measure of values as well as a medium of exchange. Rising prices means fall in the value of money and hence reduction in the resources in possession of those whose incomes do not rise in the same proportion as the rising prices. Similarly a fall in the level of prices increases the command over resources of those whose money incomes do not fall in the same proportion as the fall in prices. Thus rising prices are unfavourable for people with fixed incomes and falling prices are a source of gain to them. To the business community rising prices are of

great advantage because they enable them to command more money at the time of selling their goods and services as compared with the money they spent on elements of costs for the production of those goods and services. The effect of falling prices is just the opposite so far as these people are concerned. Apart from these redistributive effects, too frequent and too abrupt changes in price levels upset all calculations of those who are engaged in productive enterprises, thus creating a general sense of instability and insecurity in the economic system which is most deleterious to economic progress.

4. Prices in Pre-partition Days : Before the World War II broke out, India and the rest of the world had passed through a decade of economic depression due to causes into which we need not enter in this context.

The outbreak of the war in September, 1939 started an upwards movement of general prices in India as in so many other countries of the world. The rate of increase in prices was specially accelerated after 1941, when the sphere of the war was extended with the invasion of Russia by Germany on the one hand and the military exploits of Japan in South-East Asia on the other. The main causes which led to excessively high prices in India were: falling off in imports especially of foodgrains from Burma and cloth from Japan, increase in exports to the war theatres in the Middle East and South-East Asia, diversion of productive resources from the civilian sector to the war sector of the economy, transport bottlenecks and the hoarding of commodities on the part of producers, middlemen and consumers. This happened at a time when the purchasing power in the hands of the people was increasing at an enormous rate due to the issue of notes in India against the Sterling Securities kept in London in lieu of the goods and service supplied by India to His Majesty's and other Allied Governments.

The result was that the index number of wholesale prices which stood in August 1939, at 100, was 137 for the year 1941-42, 236.5 for the year 1943-44 and rose to 245 for the year 1945-46. The corresponding figure for agricultural commodities for 1945-46 was still higher standing at 273. It should be noted that these indices are based on controlled prices. Prices actually prevailing in the market were much higher. That these high prices were primarily due to increase in note issue is indicated by the fact that the index number of notes in circulation with July, 1939 as 100, stood at 686 for the last quarter of 1945 and 705 for the first quarter of 1946. The tempo of increase in prices

continued unabated even after the termination of hostilities. This can be judged from the fact that the index number of wholesale prices which stood at 245 in March, 1945, rose to 302 by the end of August, 1947 and increased to 381 during the course of the following year.

The causes of increase in the pre-partition two years are to be found firstly, in the continued increase in the volume of note issue against accumulating Sterling Balances received in payment of goods already delivered during the war; secondly, the pull exercised by the pent-up demand of the war period on consumer's goods and capital equipment; and thirdly, the failure in making up the deficiencies in production due to industrial unrest and difficulties of importing capital goods. The general sense of insecurity prevailing due to civil commotion during the year preceding the partition also contributed to the slowing down of productive activities.

5. Prices Since Partition : After the partition of the Indo-Pak sub-continent the trend of prices still continued upwards and in addition to the old factors responsible for rising prices, the situation arising out of the partition also exercised its influence in the same direction. As far as Pakistan was concerned these new influences were :

(i) The paralysis of productive activity especially in the West Punjab due to communal riots, migration of non-Muslims who occupied key position in our economy.

(ii) The flood of refugees who swarmed into Pakistan from the East Punjab and other parts of the Indian Dominion immediately after the partition and the inevitable delay which occurred in their absorption in productive pursuits, while they entailed considerable expenditure from the public treasury.

(iii) General crippling of the transport system for some time after the partition due to the lack of staff and coal for railways, and the scarcity of buses on the roads.

(iv) The scarcity of commodities was further accentuated on account of the sudden stoppage of imports of essentials of life like cloth, sugar, paper, coal, iron and steel goods, for which Pakistan regions depended on India.

(v) The erection of customs barrier between India and Pakistan after the expiry of the Standstill Agreement in March, 1948, further added to the cost of goods coming from India.

(vi) Mounting Defence expenditure due to inter-Dominion tension caused delay in economic development.

(vii) Damage caused to our agricultural production by excessive rains and consequent floods both in East and West Pakistan, during the rainy seasons of 1947 and 1948.

(viii) The upward tendency of the world price level due to the universal shortage of goods and the rearmament programmes followed by certain countries on account of the deteriorating international situation.

(ix) The restrictionist import policy of the Pakistan Government in the interest of conserving foreign exchange.

(x) The failure of price control measures and Government distributive and procurement machinery leading to widespread black-marketing and hoarding of commodities.

The table given below shows the extent of rise in prices that took place in the post-partition period in West Pakistan. It should be noted that these figures are based on controlled prices. Actually the prices rose much more than indicated by the table. Number of whole prices at Karachi.

(Base : Week ending 1938-39 = 100) ¹

Groups	16-8-47	29-5-48
Foodgrains	... 351	351
Sugar and Gur	... 217	225.8
Cotton, Raw	... 261	337.4
Cotton Manufactures	... 220	259.5
Hides and skins, Raw	... 375	314.5
Leather Manufactures	... 242	269.5
Iron and Steel	... 163	203.6
Building Materials	... 553	529.5
Paper and Board	... 405	407.5
Dyes and chemicals	... 377	507.2
Soap	... 261	461.1
Coal	... 429	461.4
General Index	... 306.3	345.3

There has been a considerable rise in the prices of foodgrains although the index number indicates no change. As already stated the index number is based on controlled prices. Actually wheat has been selling at double the controlled price in non-rationed areas. Noticeable rises in prices occurred in the groups comprising Cotton manufactures, Iron and Steel, Dyes and chemical and Soap. These are the commodities for which Pakistan depends on imports from the Indian Dominion.

The above figures as indicated in the table relating to

1. Karachi Commerce, August, 1948, pp. 5-6.

Karachi. Prices also rose in other parts of Pakistan. For instance taking the last week of December, 1947, as the base the wholesale prices in Dacca on the 10th July, 1948, were Tobacco 20% higher, Mustard oil 41%, Salt 15%, and Pulses 11% higher. In Chittagong the figures respectively were Tobacco no change, Mustard oil 26% higher and Salt 53%, Pulses 61%.

In the West Punjab the whole sale prices at Lyallpur in April, 1948 compared to August, 1947 were gram 82% higher, Refined Sugar 63%, American Cotton 41%, Tobacco 14%, Salt 150%, Cow hides 132% and Bull hides 115% higher.

6 Government Action to Meet the Situation : This rise in prices naturally affected the cost of living and the Government could not remain a disinterested observer of the situation. The Ministry of Economic Affairs, therefore, called an Economic Controls Conference at the end of April, 1948. The conference was in favour of de-control in general, but recognised that the extent of control in each case must depend on the total supplies available, the possibility of reducing demand and the availability of substitutes. In cases where substitutes were not available, for instance petroleum and petroleum products, it was not possible to introduce de-control of prices. It might be, however, possible to remove controls on items of general use like kerosene and diesel oil. As to the commodities like coal, iron and steel, paper and newsprint for which Pakistan depended on foreign imports, which were not available in sufficient quantities, control could not be removed. As regards foodgrains the conference admitted that normally Pakistan was self-sufficient in this respect but not the two parts of Pakistan separately. Moreover considerable damage had been caused to Pakistan's food resources due to floods, and dislocation of trade, and movement of populations etc. and therefore a cautious policy was necessitated and controls had to continue for the time being.

As regards cloth Pakistan depended largely on imports from India. The conference suggested that measures should be taken to increase these imports and at the same time steps should be taken to control the production of handloom cloth in Pakistan. Further they were strongly of the view that strict measures should be taken against corruption generally associated with controls. A committee was appointed consisting of Central and Provincial officials to frame a Model Act, to deal with the offences of corruption, profiteering and black-marketing.

Following this conference the Central and Provincial Governments took certain measures to relieve the price situation which was creating distrust and agitation among the general population. The Government took some austerity measures like reducing the amount of ration, substituting half rice for wheat. To increase food supplies in the market Government also took steps to persuade the producers, mostly big landlords, to deliver the surplus grains to the Government agencies, in which policy they met with only a partial success. Further the import policy was liberalised by extending the limit of commodities under the open general Licence.

The Government also arranged for further imports of essential goods like foodgrains and cloth from other countries. They applied for 160,000 tons of foodgrains to the International Food Council. Some wheat has already been imported from Russia and some from America. Arrangements have also been made for the importation of coal from England and cloth from Japan and Czechoslovakia.

Despite these measures the scarcity of consumer's goods still continues and the prices are still on the upgrade. Recent figures reveal that the cost of living has been rising all along. The Board of Economic Enquiry, West Punjab Index Number with base 1939 stood at 494 in September 1948 indicating almost a five times increase in the cost of living. During the period July to September, 1948, the retail index increased by 35 points. The highest increase occurred in the case of foodstuffs. There has been a good deal of labour unrest in Pakistan due to the mounting cost of living. The immediate future indicates no sign of relief.

7. Failure of Government Measures : The above measures adopted by the Government have not been very effective to meet the situation. Most of these measures have been merely expression of intentions rather than concrete steps. And where the Government did try to take steps they were taken with mental reservations and therefore half-heartedly. For instance, the campaign against hoarding by big landlords did not produce expected results because this campaign was never pursued with determination and single-mindedness. The Government always seemed to have a soft corner for the big landlord. The penalties were very lenient and were very rarely enforced.

As regards measures against corruption of officials dealing with controls, they were never pressed hard enough to produce any good moral effect. Corruption is still rampant.

As regards plans for development they have not yet come through their preliminary stage. Even the machinery for planning has not been properly set up.

8. Measures Suggested: We believe that better results could have been obtained if the Government had taken more systematic measures with greater determination. Controls which are essential for a scarcity economy ought to have been applied more comprehensively and more strictly. Even now if the Government wants to do something real and substantial, they should revise their control policy and also should speed up their plans of development especially those which are likely to yield immediate results. For this purpose we would suggest the following measures:

(1) To meet the food scarcity, the Grow-More-Food campaign should be revived and carried on with greater zeal and determination than hitherto. Extension of irrigation facilities, distribution of better seeds and manure, bringing under cultivation new areas, imparting greater stability of tenure to the actual tiller of the soil, are some of the measures that suggest themselves in this connection.

(2) As regards increased production of cloth we should not put too much reliance on imports and should reorganise our handloom industry and, as far as possible, on co-operative basis.

(3) Import of ordinary consumer's goods should be further liberalised. Our Foreign Exchange resources are ample and there is no immediate prospect of their being utilised on a large scale for the purchase of capital goods. In the importation of consumer's goods the Government should specially encourage articles of use for the common man.

(4) As regards price control all the essentials of life should be put under a system of strict Price Control and Rationing. To economise in the administration of rationing, distribution to individual households may be entrusted to co-operative societies, formed for this purpose in each mohalla or in each village. The procurement machinery should be simplified and rationalised.

In addition to these measures an attack should be made on prices from the side of money. Tax rates on higher income groups should be increased, further loans should be floated, and measures should be taken to encourage the habit of saving among the poor and the middle classes. The Agricultural Income Tax should be imposed in all the provinces and wherever feasible made more progressive. Steps for the introduction of the Estate Duty should be speeded up.

CHAPTER X

FINANCES OF THE STATE

1. Introduction : The significance of the State finances has considerably increased during recent years. There was a time when the state was regarded merely as an organ of defence and law and order. During the last one hundred years the sphere of State activity has extended enormously, in the matter of regulation, control and even direct assumption of economic and social activities of the community. It was natural, therefore, that along with the extension of the sphere of its activities, the size and importance of the State's budget should also increase.

During the last generation or so the various countries of the world have passed through the ordeal of two major Wars which have involved expenditure on Defence reaching astronomical figures. These wars have further shown the scope as well as the limitations of state action, in the various fields of social and economic activity. The prosecution of these wars has meant an organized effort on the part of communities the dimensions of which were undreamt of before. This effort has directly or indirectly involved state action and expenditure through state departments. New methods and organs of finance have been developed, which have far reaching repercussions on the day-to-day life of every citizen.

How a State finances its activities, dealing with its short term and long term aims and objects, is a matter of very great importance to the economic set-up of a country. There are methods of finance which release potential energies for creative purposes; there are others which lead to the proverbial killing of the goose that lays the golden egg. There are methods of drawing out resources from private control which create inequalities for the various sections of the community and there are others that can introduce a greater measure of social justice. The choice has to be very carefully exercised.

The Soviet Union has familiarised us with the idea of 'Economic Planning'. There has been a lot of talk of Planning in the various countries of the world, especially since the great Depression of the thirties put their economies out of gear. The recent World War has destroyed much that was productive and

has led to distortions and frictions in the economic systems of the countries that have received its impact. These economies have to be rehabilitated in which process the state has to play a major role.

Economic Planning under the aegis of the state is now universally recognised as the most effective method of dealing with the present economic breakdown. Finance must play a most important part in this Planning; alternative ways of solving the financial problems of Planning must be intelligently studied and judiciously chosen.

Pakistan, as a new-born state, is faced with tremendous problems. We have a primitive agricultural economy and practically no industries worth the name. Consequently the standard of living of the people is almost at the lowest. If *laissez faire* has been rejected by the more prosperous nations, it is entirely out of date and out of question in our case. How far we shall be able to reconstruct and rehabilitate our economic system will depend on the zeal and initiative and resource shown by those who are controlling the destinies of our nation. In this connection the financial problem will be one of the basic problems to be tackled. We must carefully husband our resources for the service of the nation. Public Finance is the method by which we can use our resources to the best advantage from the point of view of economic development.

2. The Indo-Pakistan Financial Agreement: Before we study the actual budgetary position of Pakistan and its Provinces as at present, it will be of interest to know how the assets and liabilities of the undivided India were apportioned between India and Pakistan. This will indicate the financial burden we have inherited from the pre-independence days. The division took place according to an agreement between the two Dominions which was announced on the 12th December, 1947. The Indo-Pakistan Financial Agreement, as it is called, laid down certain broad principles or formulae according to which the assets and liabilities of the Central Government of undivided India were to be divided between the successor Dominions.

The major provisions of this settlement are given below :—

(1) The cash balances of the undivided Government of India were to be divided in the ratio of Rs. 75 crores to Pakistan and something like Rs. 325 crores to India. The sum of Rs. 75 crores was roughly 17½ per cent. of the total cash balances of undivided India.

(ii) The liabilities assumed by the Pakistan Government were to be those which went with the assets taken over by Pakistan, plus $17\frac{1}{2}$ per cent. of the excess of the old Government of India's liabilities over its assets—minus the liabilities assumed by the Pakistan Government. The liability assumed by Pakistan for the N.W. strategic railway, however, was not Rs. 32'56 crores, which was the approximate book value of the railways, but Rs. 14'46 crores, i.e., about one half of it.

(iii) The pensions in issue and part-earned pensions were to be capitalised and divided in the same manner as the uncovered debt.

(iv) Military stores were to be divided in the proportion of one-third to Pakistan and two-thirds to India, and a loan of rupees six crores was to be provided to Pakistan for the setting up of essential ordinance factories and a security press.

(v) The repayment of the loan which fell due to be repaid by Pakistan under the above heads was to be spread over a period of fifty years beginning from the 15th August, 1952 ; it was to bear interest at the average yield of the medium and long-dated securities of the Government of India during the two years immediately preceding the partition.

(vi) Part IV of the Pakistan (Monetary System and Reserve Bank) Order issued on the 14th of August, was modified in so far as it related to the division of sterling between India and Pakistan. This provision we have already explained in a previous chapter.

3. Pakistan Central Budget : On next page we give the first Budget of the Pakistan Central Government.

It will be clear from this statement, that the main sources of revenue of the Central Government are Customs, Income Tax, Central Excise and Salt. Some income is also yielded by the Commercial Departments.

A brief review of each of them will be of interest.

4. Main Sources of Central Revenue : (i) *Customs.* Customs duties include both Import and Export duties. Customs were the major source of income of the Central Government of undivided India. In 1900 it yielded only Rs. 4'9 crores. It rose to Rs. 11'2 crores by 1913 and as high as Rs. 76'73 crores by 1935-36. Due to disturbed conditions of foreign trade during the war, the revenue from this source declined to Rs. 30 crores in 1943-44 but rose again in subsequent years and stood at Rs. 65

THE CENTRAL BUDGET OF PAKISTAN GOVERNMENT

(In thousands of Rupees).

(In thousands of Rupees).

Revenue*	Budget Estimates		Percentage of total	Expenditure		Budget Estimate		Percentage of total
	1947—48	1948—49				1947—48	1948—49	
Principal Heads of Revenue								
Customs ...	10,00,00	18,50,00	43.7	Direct Demands on Revenue ...	...	91,34	1,51,05	2.9
Central Excise Duties ...	1,50,00	2,50,00	5.9	Debt Services	...	89,50	2,00,65	3.8
Income Tax & Corporation Tax ...	5,00,00	7,00,00	16.23	Civil Administration	...	5,85,13	9,41,87	17.9
Salt ...	60,00	2,80,00		Currency & Mint	...	16,99	42,00	
Other Principal Heads ...	26,57	39,95	31.61	Civil Works	...	34,83	31,07	
Departmental Receipts ...	32,440	11,18,16		Miscellaneous	...	90,21	64,63	
Extraordinary items & Contributions of Commercial Departments.				Defence Services	...	34,24,20	37,11,30	70.7
Total Revenue ...	20,60,97	42,38,11		Contributions & Miscellaneous Adjustments between Central and Provincial Governments ...	...	62,61	1,00,14	
Deficit ...	23,41,24	10,10,77		Other Heads	...	7,40	6,17	
Total ...	44,02,21	52,48,88		Total Expenditure	...	44,02,21	52,48,88	

*The revenue estimates do not take into account the effect of the new taxation proposals for 1948-49.

crores for 1946-47; it reached the high figure of Rs. 89 crores in 1947-48. The Indian Union has budgeted Rs. 81.7 crores under this head for the year 1948-49. This comes to 34.9 per cent. of the total revenues of the country. The customs as a source of revenue is even more important to Pakistan since it accounts for 43.7 per cent. of its total revenues. As we shall see presently, to cover our deficit also we have mainly depended on increased customs duties. It appears that for a long time to come, owing to the industrial backwardness of Pakistan, customs will be the mainstay of the Central revenues. The chief objection against deriving revenues from customs is that its burden falls disproportionately heavily on the poorer sections of the community. In the words of the memorandum issued by the office of the Economic Adviser to the Government of (pre-partition) India "the weight of import duties presses most heavily on goods of general consumption, less severely on luxury goods, and least on capital goods and raw materials."

Moreover this source of income is at the mercy of influences affecting foreign markets as is testified by our experience during the Depression period. Pakistan, therefore, must not depend over too much on this source and should develop alternative sources of revenue especially Income Tax and Corporation Tax. A policy of rapid industrialisation of the country is thus indicated.

(ii) *Income Tax.* Next in importance to customs was Income tax as a source of revenue in pre-partition India. In fact during the last few years Income tax revenue has been more than customs revenue in the case of India. Income-tax revenue increased from the low figure of Rs. 3 crores before World War I, to Rs. 47 crores in 1933-34. In 1946-47 along with Corporation Tax and Excess Profits Tax it brought Rs. 158 crores to the Central coffers. The budget estimate for the year 1947-48 was Rs. 135 crores.

Until 1939 tax on incomes was imposed on the basis of the ordinary progressive taxation system, under which the income was assessed as a whole. The Income Tax Act of 1939 substituted what is called the 'slab' system, in place of the previous 'step' system. Under the new system which prevails in India and Pakistan, the income is divided into slabs or bits and each successive slice is taxed at a higher rate. Since this system puts a proportionately heavier burden on the richer classes Income-tax now is more equitable.

During the War, in addition to the ordinary tax, a surcharge was also levied to further increase revenue from this source.

Moreover, what was called the Excess Profits Tax (E.P.T.) was also introduced which was a special tax levied on the excessive profits earned by business men due to abnormal war conditions. E.P.T. was abolished in the budget for 1946-47 and in its place was substituted, in 1947-48, a new tax called the Business Profits Tax.

Income tax is the most important source of revenue for the Indian Dominion. The Budget for the year 1948-49 estimates Rs. 130 crores under Income tax and Corporation tax. This is about 56% of the total Central Revenue of India. For Pakistan this source is estimated to yield Rs. 7 crores which is about 16.23 per cent. of the total revenues of the Dominion. This is natural because of the industrial backwardness of the country. Pakistan must aim at making Income Tax as the main source of her revenues in the future.

(iii) *Central Excise.* Excise is a tax imposed upon home produced goods. Central Excise excludes revenue derived from alcoholic liquors, which is a Provincial source of revenue. Undivided India derived Rs. 48.5 crores from this source in 1945-46 and Rs. 40.93 in 1947-48. For 1948-49 India has budgeted Rs. 34 crores and Pakistan Rs. 2.5 crores from this head. This duty was mainly levied on products like steel ingots, motor spirits, kerosene oil and, most important of all, on sugar and matches. Production of these things is not very large in Pakistan; hence this source accounts for less than 6 per cent. of our total revenues.

(iv) *Salt Tax.* The tax on salt has been criticised on the ground that it is a regressive tax and thus falls too heavily upon the poor. On the other hand it has been argued that this is the only method of reaching every resident of the country. Due to pressure of public opinion, however, the tax was abolished in the last budget for undivided India (1947-48 Budget) at a loss of about Rs. 9 crores a year. This tax has been reimposed by the Pakistan Finance Minister and is expected to yield Rs. 2.8 crores in the year 1948-49, which comes to about 6½ per cent. of the total revenues. It is a substantial source of revenue and its burden per head is insignificant, and therefore it should be kept.

(v) *Commercial Departments.* Of these the most important are Railways and Post and Telegraph. In the undivided India (and in the new Indian Dominion) the Railway budget was separate from the general budget. Only net contribution was included in the general budget which was Rs. 32 crores for 1945-46 and only Rs. 7.5 crores in 1947-48. The Indian Dominion

has estimated this contribution at Rs. 4'50 crores and Pakistan expects practically no revenue from the Railways for the year 1948-49. In fact our Railways suffered a loss of Rs. 1'5 crores during the 7½ months ending 31st March, 1948. Normally this source should bring a few crores to our Central Exchequer. The loss on Railways has been due to general dislocation of trade, free transportation of refugees and scarcity of coal following partition. From Post and Telegraph undivided India expected Rs. 12 crores net in the budget for 1945-46 and only Rs. 4'22 crores in 1947-48. For 1948-49 the Indian Dominion has budgeted Rs. 38 lakhs only, while Pakistan expects a loss of Rs. 25'6 lakhs. The loss for the post-partition period of 7½ months was as high as Rs. 55 lakhs which, as the Finance Minister pointed out, "may be almost wholly attributed to the dislocation in business and economic life caused by the disturbances". The figures for wartime were inflated due to special circumstances. Normally Pakistan cannot expect much from this source.

It is an essential service which must be supplied cheaply to the masses and its maintenance cost is rather high.

5. Main heads of Central expenditure : The main heads of expenditure of the Central Government are Defence Civil Administration and Debt Services.

(i) *Defence* : Defence had always accounted for the major portion of the expenditure of the Central Government of India. During normal times it consumed from 40 to 50% of the Central revenues. During the War it rose to an extremely high level; for instance, out of a total expenditure of Rs. 363'8 crores budgeted for 1944-45, as much as Rs. 301 crores or about 90% accounted for Defence Services. In 1947-48, it formed about 58% of the total expenditure. The Budget figures for the year 1948-49 for India and Pakistan are respectively Rs. 121'0 crores and Rs. 37'1 crores; thus India proposes to spend 49% and Pakistan 71% of their total expenditure on Defence. If we calculate the percentage on the total Revenues of Pakistan from the old sources it is as high as 87'6 per cent. which is an enormously high percentage. Pakistan is thus spending a much larger proportion of her resources on Defence than India. This is quite natural since needs of Defence must be maintained up to a certain minimum standard, whatever the total resources of a country. The Finance Minister of Pakistan is, however, of the view that expenditure on Defence is higher than would normally be justified for a young state like ours. "The dangers surrounding us," he said in his Budget speech, "make it essential for us to maintain an effective Defence

Force and we are therefore reluctantly constrained to spend on the armed forces money, some of which, under better conditions, should have been available for the social, industrial and economic development of the country."

The remedy for this state of affairs therefore lies not in reduction in Defence expenditure but in increasing our revenue resources.

(ii) *Civil Administration* : Civil Administration was always criticised as the most topheavy and expensive in India. Expenditure on Civil Administration increased enormously during the War. In 1933-34, it was 9.58 crores. By 1943-44 it reached Rs. 17.8 crores and by 1945-46 the figure stood at Rs. 27.5 crores. The Indian Dominion proposes to spend on Civil Administration (including Civil Works) Rs. 24.2 crores in 1948-49 and Pakistan Rs. 9.7 crores (including Rs. 31 lakhs on Civil Works.) Here again the burden of Civil Administration on Pakistan is relatively heavier. India will spend less than 10% and Pakistan 18 per cent. of their total budgets respectively under this head. One reason of this high expense is that the number of persons who opted for service for Pakistan is considerably in excess of our requirements; hence the presence of a large number of surplus staff. The percentage, therefore, is likely to be reduced in the future, especially after the Pakistan Pay Commission have revised the grades of pay.

(iii) *Debt Services* : The payment of interest on National debt and its repayment, constitutes one of the important items of expenditure in the Central budget even in normal times. This head absorbed Rs. 9.6 crores in 1933-34 Rs. 11.4 crores in 1941-42 and Rs. 33.9 crores in 1945-46, a war year. India's national debt increased enormously during the war and, hence, the high figure under this head. For the year 1948-49, the Indian Dominion has budgeted Rs. 43.86 crores for "payment of interest, pensions, and provision for debt redemption." Pakistan has budgeted Rs. 2.01 crores under debt services. This low figure of Pakistan is due to the financial agreement with India under which, as we have already explained above, India has assumed initial liability for all outstanding loans and Pakistan is to repay its share of debt to the Indian Dominion in fifty annual, equated instalments, subject to the condition that no instalment will be repayable for the first four years after partition.

The figure budgeted under this head represents the net liability of Pakistan in respect of Interest payment in connection with Post-office savings bank deposits, Postal Cash, Defence and Savings

Certificates, State Provident fund etc., in addition to the interest on new loans floated by the Pakistan Government.

Pakistan's New Loans : A few words about the new loans of the Government will not be out of place here. The Government of Pakistan floated the first series of loans in February 1948. Their main object was to collect money for the development of Pakistan including the provinces. These loans brought about Rs. 49 crores in subscriptions. In October 1948, three new loans were announced in response to the pressure of the investing individuals and institutions. The first of these carrying a rate of interest at $2\frac{3}{4}\%$ is repayable in 1955-56. The second at the same rate will mature in 1958-59, but it was issued at Rs. 99.7-0 for Rs. 100/-/-. The third loan will be repayable in 1963 and will carry 3% as interest. All the three loans were issued on the 18th of October. The first and the second were closed on the same date while the third was kept open until the end of the month. The public response to these loans was very encouraging, thus indicating the great confidence the people of Pakistan have in the financial soundness of the country.

(iv) *Rehabilitation of Refugees* : This is a new head of expenditure which has appeared on account of the Refugee problem created by the mass movement of population after partition. The Indian Dominion has set aside Rs. 10.04 crores in their budget for 1948-49 under the head 'Rehabilitation of Refugees'. In the Interim budget for $7\frac{1}{2}$ months ending March 31, 1948, the Indian Dominion provided Rs. 22 crores for this purpose. Thus the main financial responsibility for the rehabilitation of refugees was undertaken by the Central Government in India.

In the case of Pakistan the burden of rehabilitation of refugees has been borne mainly by the West Punjab which has provided about Rs. 7 crores* during the period of about 20 months ending 31st March, 1949. The Central Government of Pakistan, however, has helped by taking two steps in this connection. Firstly, it has set up a Refugee Rehabilitation Finance Corporation with an Authorised capital of Rs. 3 crores of which Rs. 1 crore will be invested by the Government. Secondly, the Government has given a capital grant of Rs. $1\frac{1}{2}$ crores to be allocated between the provinces of West Punjab, N.W.F.P., and Sind, for the work of rehabilitation. This is a meagre help in view of the magnitude of the problem, but as the Finance Minister pointed out, "The present financial position of the Central Government imposes severe limitations on the amount of assistance that can be afforded."

It should be noted that while India had to rehabilitate about 5 million refugees, Pakistan has had to take care of about 6½ million refugees. The Indian Union has spent about four times the amount on a smaller number of refugees.

6. New Budget proposals : As regards the new Budget proposals the Finance Minister of Pakistan left the ordinary Income-tax and super-tax rates unchanged. In the interest of Industrial development, however, the following concession was given. New Industrial undertakings using power-driven machinery and employing more than 50 men in Pakistan were to be exempt from all direct taxation, during the first five years, on so much of their profits as did not exceed 5 per cent. of the capital employed. It was also proposed to extend by five years the period as prescribed at the time for the grant of the special initial depreciation of 15 per cent. on new buildings, and to allow special initial depreciation of 20 per cent. on machinery and plant which was brought into use for the first time in Pakistan even if it had been previously used elsewhere. To make good the loss from these concessions, measure were proposed to check evasion of taxes.

The Finance Minister proposed the following indirect taxes :

(i) The Sales Tax was made a Central source (instead of a Provincial head as hitherto) for a period of two years, on the understanding that the Centre would pay the provinces certain amounts in lieu of the taxes that they might have otherwise collected under their own proposals. Rs. 375 lakhs were expected from this source after making the agreed payment to the provinces.

(ii) Export duty on raw cotton was increased to Rs. 60 per bale and an export duty of 10% *ad valorem* was imposed on hides and skin and cotton-seeds. These were expected to bring Rs. 310 lakhs.

(iii) Import duty on Sugar was increased to Rs. 10 per cwt., and the duty on Sugar Candy to Rs. 21 per cwt., on Boots and shoes and other manufactures of leather from 30 to 40 per cent.

A further surcharge was imposed on the duties on beer, wines and spirits, tobacco, cigar and cigarettes, motor cars and wireless receiving apparatus.

All these were expected to yield Rs. 135 lakhs.

(iv) An increase in Import and Excise duty on Kerosene oil from As. 3 to As. 4 a gallon, and on Motor Spirits from As. 12 to As. 15 a gallon was effected, provided in the latter case the total Central and Provincial tax did not exceed Rs. 1-2-0 per gallon.

The yield expected from these sources was Rs. 50 lakhs.

(v) The Excise duty on Hookah tobacco was increased from As. 3 to As. 5 per lb. and on biri tobacco was As. 9 to As. 12 a lb. The duty on betel-nuts was restored to 1946 level of As. 2 per lb. These taxes were expected to yield an additional revenue of 120 lakhs.

(vi) To cover the deficit in the estimate of the Post and Telegraph Department the following proposals were made :

(1) The rate for inland post-card was increased from As. $\frac{1}{2}$ to 9 pies.

(2) The rate for postal packages (inland and to India) was increased from 9 pies to one anna for the first 5 tolas, and 3 pies to 6 pies for every additional $2\frac{1}{2}$ tolas.

(3) Air-Mail fee (including to India and Ceylon) was raised from one anna to $1\frac{1}{2}$ annas per tola for letters and packets ; and from 6 pies to 9 pies for post-cards.

Additional revenue expected from these sources was Rs. 26 lakhs.

All these proposals were expected to yield Rs. 10.16 crores. An additional revenue of Rs. 40 lakhs was expected during the remaining portion of the year 1947-48, since these taxes were to come into force at once. This left a deficit of Rs. 23.01 crores for $7\frac{1}{2}$ months of 1947-48, and a surplus of Rs. 5 lakhs for 1948-49.

The Finance Minister also revealed that he proposed to introduce an Estate Duty Bill and that the Provincial Governments had agreed that the proceeds of Estate duties on both agricultural and non-agricultural estates should be left wholly to the Central Government.

7. Comments on the new proposals : To take the Sales Tax first, it was always a provincial head of revenue but was centralised in consultation with the provinces under the new Budget. It was however provided that a portion of the proceeds would be allotted to the provinces. This measure is taken for two years only and we hope that the centre will be in a position to restore this head back to the provinces at the end of this period. Here it may be mentioned that the Sales Tax came under the fire of criticism from the business community as well as the general public. The main points of attacks were as follows :—

(1) The tax had to be paid every time a commodity changed hands, this was regarded as very cumbersome method which re-

quired an elaborate Government machinery to enforce it. Moreover, the burden of repeated taxes became too heavy on the consumers, already burdened with inflationary prices.

(2) Secondly, the tax was open to evasion on the part of the sellers either by non-entry or token entry of sales.

(3) Thirdly, the lower limit as proposed in the tax was Rs. 5,000, of turnover. This limit was regarded as too low. This brought under its net small people like hawkers, bakers, betel sellers etc., who are generally illiterate and are not expected to keep proper accounts. This opened loopholes for evasion and corruption.

At the strong protest of the business community the Government has recently (Nov. 1948) announced Amendment of the Act by an Ordinance. The main changes brought about are (1) certain articles like cloth, yarn, second-hand clothing, guny bags, fuel and cement are to be subject to a single-point tax of As. 1½ in the Rupee. This will relieve the retailer of the burden of tax collecting and the consumer especially in the rural areas of the burden of mounting prices at every transaction. (2) Things like mustard oil, dried fruit, wool, bones and bonemeal manures including chemical fertilisers, paper and stationery, with bicycles and motor vehicles sold for less than Rs. 10,000 will be charged at one anna in the rupee. In this list it is strange to find manures and chemical fertilisers, stationery & bicycles. There have been several times proposals that the State should subsidise the supply of manures and fertilisers to encourage the conservative agriculturist to use them. To tax them further is hardly justified. Paper and stationery are vehicles of spreading knowledge. They should be made as cheap as possible in the interests of wider education. Bicycles are a great necessity of the poor and lower middle classes. This article also could have been excluded from the list.

(3) Luxury goods like alcoholic liquors and motor cars and motor cycles, clocks and watches will pay annas 3 in the rupee. Motor vehicles and alcoholic liquors may be all right, but to call clocks and watches as luxuries is stretching the meaning of this term too far. At least clocks and watches of lower value say less than Rs. 30 could have been excluded or put under the category of articles paying one anna in the rupee.

(4) The lowest limit still remains at Rs. 5000. A concession is given, however, by which the assessee can commute their liability into a lump payment in advance. This will involve difficulties of assessment of people on the margin and will not only be expensive administratively but open opportunities

of evasion, corruption, harassment and litigation. Litigation because now an appeal will be from the assessing authority to an appellate authority. The limit of Rs. 5000 is too low and should have been raised to at least Rs. 10,000, especially in view of the present inflationary prices.

As regards increase in the export duty on raw cotton to Rs. 60 per bale, the danger is that this will fall on the shoulders of the poor grower. Cotton has an international market in which the main factor in determining price is the supplies from America which is the largest producer of cotton in the world. The recent-most forecast of American production of cotton shows that a record crop for the last 20 years is expected. The production is estimated to be 1 crore, 52 lakh bales which exceeds the last year's crop by 27 per cent. and pre-war production by 15 per cent. Thus U.S.A. alone will add over 30 lakhs bales of cotton to the world supply over and above the last year's crop. Under these conditions the price of cotton is likely to fall. Thus there will be a buyer's market in cotton. The burden of the duty imposed in Pakistan will most probably be shifted back to the grower. That this danger is not imaginary is shown by the recent downward trend of the price of raw cotton in Karachi.

In the same way the burden of duty on Hides and skins and cotton-seeds will also fall mostly on the producer.

The Import duties on the other hand are less open to objection. They are either on luxury goods like motor cars and wireless apparatus or harmful articles like wines, spirit, tobacco & cigarettes or on goods which could bear a higher duty in view of the prices of substitutes available in the country.

As regards Excise duties on Hookah tobacco, Biri tobacco and betel-nuts, they will hit the poor man but on account of the nature of the articles concerned they will not do serious harm.

The increases in postal and telegraph rates are not unreasonable. These may, however, lead to a slight contraction in demand for these services at the margin but this contraction is not likely to upset the estimated budget income from these sources.

The only serious charge that can be brought against the Budget is that it makes our finances rely too much on indirect taxation which is proverbially inequitable from the point of view of social justice. This however cannot be helped in view of the industrial backwardness of the country. It is hoped that with growing industrial development this defect will automatically be removed.

One welcome feature of the Budget is the promised introduction of the Estates Duty Bill. This is a very good source of revenue and is justified from every point of view. The only wonder is why this source has not been tapped so far. We hope that the duty will be introduced as early as possible.

8. Provincial Finance. The table below indicates briefly the general financial position of the provinces of Pakistan.

Budget for 1948-49.

	Revenue (in lakhs of Rupees)	Expenditure (in lakhs of Rupees)	Deficit (in lakhs of Rupees)	Deficit as percentage of Revenue
1. West Punjab	1229	1882	673	55.6
2. East Bengal ...	1175	1609	434	37.68
3. Sind ...	843	804	51	6.18
4. N.W.F.P. ...	361	379	18	4.95

It is clear from the table that all the provinces have budgeted a deficit. In this connection it may be mentioned that it is not Pakistan provinces alone which have shown deficit Budgets. All the provinces of India except Bihar have a similar tale to tell. Moreover it may be pointed out that a deficit budget in itself is no indication that the finances of the State or province concerned are not sound. In the present case especially extraordinary circumstances have been at work the effects of which will be only of a temporary nature. The deficit in the Punjab is the highest and comes to about 56% of the provincial revenues. The main reasons for these deficits are partly connected with the falling off of revenues and partly with the increased expenditure necessitated by the problems arising out of the partition. The revenues have declined due mainly to the general dislocation of economic life caused by the movement of population between the Dominions, especially between the two Punjabs. The Hindus and Shikhs formed the industrial and commercial backbone of the pre partition Punjab. Their exodus after partition practically paralysed all industry, trade and transport. Even as regards agriculture their moving out had serious unfavourable repercussions. The outgoing refugees attempted and to some extent succeeded in adopting a scorched-earth policy. The movement took place at a time when some of the crops were standing and others had to be sown. The fall in production was natural under these conditions. On the other hand the incoming refugees came like a flood all of a sudden and their rehabilitation could not be planned and executed speedily enough to absorb them productively into the economy of the provinces. The result was

that the reaping of the old crop and the sowing of the new crop was considerably delayed. As far as cotton was concerned there was quite a crisis in the matter of its marketing since the middlemen who used to handle this crop left a gap by moving out and the incomers could not fill the void thus created. Moreover, the refugees uprooted from their own familiar surroundings, did not seem to settle down in their new homes even when they were allotted land. Many of them moved from place to place occupying lands, reaping the crops as fast as they could, pocketing the money, and passing on to new localities. It was difficult to realise the land revenues under such conditions.

The other factors responsible for the fall in provincial revenues were stoppage of provincial share of Income tax, Centralisation of Sales tax, and decline in the Excise revenue. In the pre-partitioned India, the Central Government used to distribute a part of the proceeds of Income tax among the provinces. Due to the industrial backwardness of Pakistan our revenue from Income tax is a meagre figure ; and it could hardly be expected that the Central Government could afford to part with any of it. Not to speak of sharing a Central head of revenue, the meagreness of the Central resources compelled the Central Government even to encroach upon what used to be the provincial field of taxation. The Sales tax for instance, as we have already seen, was made a Central head instead of the Provincial head as hitherto it had been.

The falling off of Excise revenue has been due to the exodus of non-Muslims who formed the vast majority of those who were addicted to drink. Since these budgets were presented prohibition has been introduced in the Punjab and the N.W.F.P., and it is likely that in the near future the whole of Pakistan will go dry. Provincial Excise as a source of revenue, therefore, has no future.

Thus far we have dealt with causes operating on the Revenue side. While Revenue has fallen, expenditure has gone up. The biggest cause of this, especially in the case of the Punjab, has been the financial burden imposed on the provinces by the necessity of relief and rehabilitation of refugees. The refugee problem has been the greatest headache of Pakistan and her provinces. Thanks to the decisive steps taken by the centre, the solution of this problem has been speeded up and its final settlement is in sight.

From the long-term point of view, however, the proper gainful absorption of this additional population will involve fundamental reforms in our land system, a subject which has already received our attention in another connection.

Apart from the refugees the rise in expenditure in the provinces has been due to the various schemes of development planned to put the provinces on a sound footing and expenditure on police and administrative measures undertaken in the interests of peace and order internally as well as on the borders.

Provinces' new Taxation Proposals : Apart from the share of the Sales Tax promised by the Centre, the provinces have introduced certain new taxes and enhanced certain old ones to cover the deficit. The West Punjab has introduced the Agricultural Income Tax, the East Bengal has enhanced its original rates while the N.W.F.P. has proposed the same tax following the line of other Pakistan provinces. Next in importance is the Urban Immovable Property Tax, which already existed in the Punjab, but its rates have been raised to 10 p. c. from the original $7\frac{1}{2}$ per cent. The tax has also been introduced in Sind. W. Punjab has already increased existing taxes on stamps, tobacco, entertainment, and consumption of electricity. The N.W.F.P. has imposed a cess on sugar-cane and sugar and licence fee for passengers and freights on motor vehicles. The East Bengal has mostly depended upon the share of the Jute Export duty due to it from the centre.

The imposition of the Agricultural Income Tax which has been the centre of controversy for a long time is welcomed. It removes to a large extent the objection against the regressive character of Land Revenue. It is hoped that all the provinces of Pakistan will adopt this measure. The Urban Immovable Property tax is usually a local tax and it is hoped that with the improvement of provincial finances this source of revenue will be restored to the local bodies concerned. The other taxes do not require any particular comment.

It is encouraging to note that the various provinces have provided for long-term productive schemes which would raise the financial resources of the areas concerned. The West Punjab has made provision of Rs. 162 lakhs for the Thal Canals, Rs. 407 lakhs for the Rasul Hydel and Tubewell projects, Rs. 100 lakhs for initiating a scheme to provide electric power to Industries and Rs. 100 lakhs for establishing colonies of refugees who are cotton textile, hosiery and woollen textile workers. The N.W.F.P. has provided Rs. 40 lakhs for expansion of elec-

tricity, Rs. 14 lakhs for the development of irrigation and Rs. 2 lakhs for Provincial Motor transport, in all a sum of Rs. 56 lakhs. This is very commendable in view of the meagre resources of the province. The East Bengal Government proposes to spend Rs. 57½ lakhs on development schemes which includes Rs. 25 lakhs for increasing salaries of school teachers, Rs. 38 lakhs will be spent on construction of roads of strategic importance and Rs. 6 lakhs for preliminary survey for flood control and Hydro-electric schemes over the Karnafulli river, while Rs. 7½ lakhs will be spent on small electrification schemes. It is proposed to approach the centre for a loan of Rs. 17 crores for certain long-term schemes. Sind has also some ambitious development projects in hand. Among these are the Lower Sind Barrage project which is proposed to be constructed across the river Indus, some 4 to 6 miles north of Kotri. The estimated cost of this scheme is Rs. 22.23 crores. The construction of four Hydel generating stations with 2,000 to 10,000 k.w. capacity costing approximately Rs. 6 crores is also under the Government's consideration.